

## BUDGET OVERVIEW

The City of Flagstaff FY 2009 Financial Plan presents a fiscally sound and balanced budget that maintains the integrity of the City's financial condition while still meeting the service level demands of a community that expects quality services. The Financial Plan is balanced not only financially, but also equally as important, balances the allocation of resources among operating

requirements, capital needs, debt burden, and strong reserves for future needs and contingencies.

This section briefly describes the document *Format and Presentation*; the *Assumptions and Strategies* which formed the working parameters of the budget development; *Highlights of Appropriations, Revenues, and Capital Improvements Plan (CIP)* for FY 2009; *Debt Structure*; and the *Fund Balances*, which are the operating framework of the Financial Plan.

### FINANCIAL RESOURCES AVAILABLE

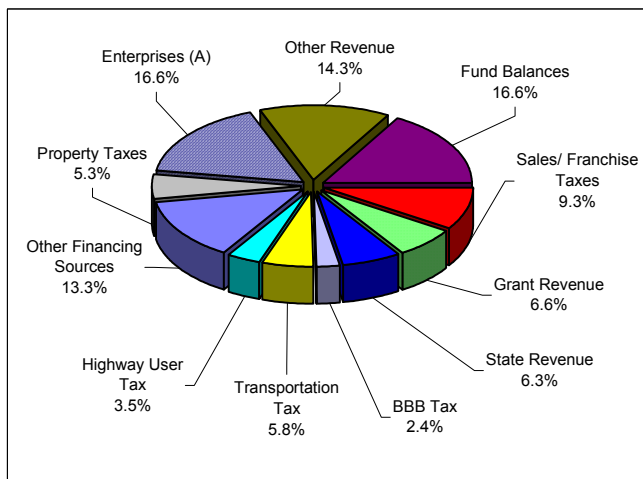
Sales/Franchise Taxes	\$	21,314,557	9.3%
Grant Revenue		15,301,097	6.6%
State Revenue		14,549,181	6.3%
BBB Tax		5,514,830	2.4%
Transportation Tax		13,295,320	5.8%
Highway User Tax		8,083,215	3.5%
Other Financing Sources		30,500,000	13.3%
Property Taxes		12,266,160	5.3%
Enterprises (A)		38,120,933	16.6%
Other Revenue (B)		32,994,749	14.3%
Fund Balances		38,218,940	16.6%
	\$	230,158,982	100.0%

#### (A) Enterprises:

Water	\$	13,714,953
Wastewater		8,500,479
Airport		1,319,326
Environmental Services		13,386,951
Stormwater Utility		1,199,224
	\$	38,120,933

#### (B) Other Revenue:

Licenses and Permits	\$	2,180,255
County Vehicle Tax		2,706,080
Charges for Services		3,354,927
Fines and Forfeits		1,097,379
County Contribution		4,053,121
Interest on Investments		2,677,842
LTA/Misc Revenue		16,925,145
	\$	32,994,749



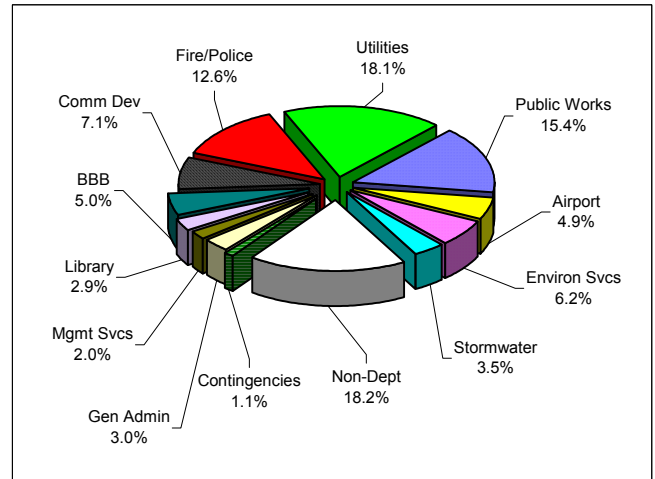
**"WHERE THE MONEY COMES FROM"**  
**\$230,158,982**

### TOTAL APPROPRIATIONS

General Administration	\$	6,869,877	3.0%
Management Services		4,609,985	2.0%
Library		6,591,380	2.9%
BBB (A)		11,433,471	5.0%
Community Development		16,245,170	7.1%
Fire/Police		28,964,563	12.6%
Utilities		41,590,209	18.1%
Public Works		35,559,477	15.4%
Airport		11,193,037	4.9%
Environmental Services		14,168,181	6.2%
Stormwater		8,041,959	3.5%
Non Departmental		41,936,673	18.2%
Reserves/Contingencies		2,955,000	1.1%
	\$	230,158,982	100.0%

#### (A) BBB Tax Funds:

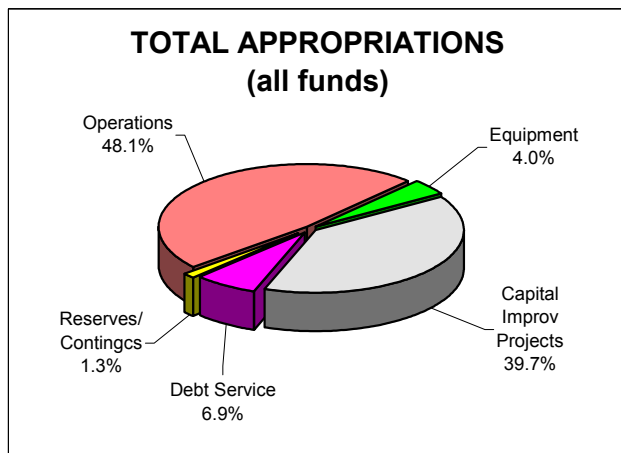
Beautification	\$	7,567,548
Tourism		2,021,685
Economic Development		1,109,386
Arts and Science		734,852
	\$	11,433,471



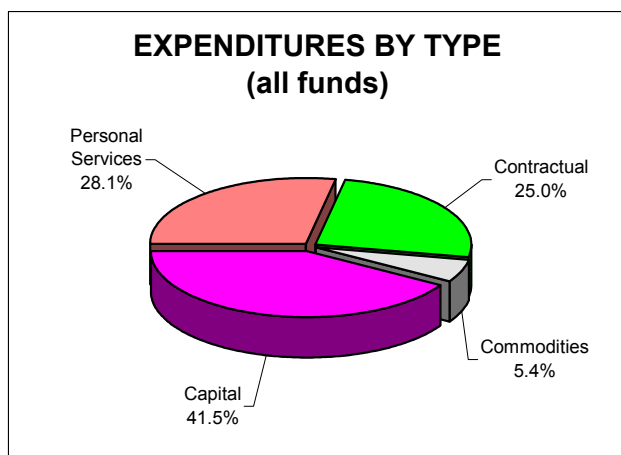
**"WHERE THE MONEY GOES TO"**  
**\$230,158,982**

The following graphs depict the major classifications of appropriation for the total 2008-2009 budget and expenditures by major types.

<b>TOTAL APPROPRIATIONS</b>	
Operations	\$ 110,702,948
Equipment	9,263,079
Capital Improvement Projects	91,420,556
Debt Service	15,817,399
Reserves/Contingencies	2,955,000
	<u>\$ 230,158,982</u>



<b>EXPENDITURES BY TYPE</b>	
Personal Services	\$ 64,625,875
Contractual	57,604,792
Commodities	12,438,171
Capital	95,490,144
	<u>\$ 230,158,982</u>



### **OPERATING EXPENDITURES BY DEPARTMENT**

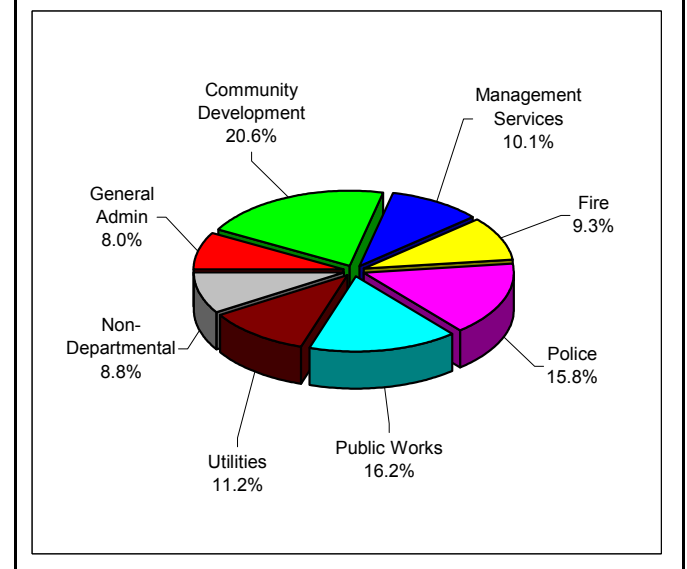
City operations include the traditional municipal services citizens expect their local government to provide. Operating expenditures exclude capital improvements, capital equipment, debt service and reserves. The department budgets are presented to include division

budgets and Departmental (organizational structure) responsibilities as defined by the City Code.

<b>OPERATING BUDGET *</b>	
General Administration	\$ 8,830,865
Community Development	22,853,690
Management Services	11,201,365
Fire	10,286,114
Police	17,475,185
Public Works	17,895,405
Utilities	12,394,271
Non-Departmental	9,766,053
	<u>\$ 110,702,948</u>

\* Exclusive of Debt Service

\$ 15,817,399



**General Administration** activities comprise 8.0% of the budget (\$8.8 million). The divisions within this Department provide for the overall management and administration of the City, as well as enforcement of municipal laws through legal support and the courts. This department consists of City Manager, City Clerk, City Attorney, City Court, Human Resources, Risk Management, Tourism and Visitor Services.

**Community Development** comprises 20.6% of the operating budget (\$22.9 million), excluding the debt service requirements for Fourth Street (\$1.9 million). The services in this Department include Planning & Development Services, Engineering, Community Investments, Capital Improvements, Transportation, Stormwater, MPO, Housing and Community Services, Urban Design, Arts & Sciences, and CD Administration. The services provided by these divisions meet the current needs of the community and plan for the future.

**Management Services** comprises 10.1% of the operating budget (\$11.2 million). The department encompasses those activities that provide administrative support and services including financial services, purchasing, information systems, sales tax, and real

estate. The City/County public library system is also included within the department.

**Fire Department** services comprise 9.3% of the operating budget (\$10.3 million). The Department's public safety programs provide both personal safety in the community with proactive attention to preventable disasters and sense of well being through timely emergency response.

**Police Department** activities comprise 15.8% of the operating budget (\$17.5 million). Public safety programs provide personal safety in the community by promoting a community free of crime and assured response in emergency situations.

**Public Works** activities are provided by nine divisions that account for 16.2% of the operating budget (\$17.9 million), excluding the debt service requirements for streets (\$1.8 million), Airport (\$0.6 million), USGS facility (\$1.0 million) and Environmental Services (\$0.2 million). The services provided include environmental service operations, cemetery operations, maintenance of all public facilities and public infrastructure including streets and parks, airport operations, fleet services, and recreation programming.

**Utilities Department** comprises 11.2% of the operating budget (\$12.4 million), excluding \$5.5 million debt service requirements. Six divisions within water operations and six divisions within wastewater operations provide services that promote a clean and healthy community by providing a safe water supply and proper waste disposal.

**Non-Departmental** operations comprise 8.8% of the budget (\$9.7 million) exclusive of \$4.8 million debt service. Some divisions are contractual in nature and include Contributions to Other Agencies, and Economic Development. The Council and Commission and Non-departmental budgets account for expenditures that benefit City operations as a whole.

## **BUDGET FORMAT AND PROCESS**

The budget and financial plan for the City of Flagstaff is the policy document that reflects the goals and objectives of the City Council. These goals and objectives are implemented through the policies and priorities established by the Council as well as the various Boards and Commissions appointed by Council. The Office of the City Manager is then responsible for implementing these policies and priorities utilizing the allocation of financial resources. The annual review process provides the community an opportunity to evaluate the services provided to the citizens of the community. Programs are identified, evaluated, and the scope of service provided is defined. The staffing level needed to provide the service level deemed appropriate by Council is determined. Additionally, funding

requirements and level of effort to be provided are established.

## **FORMAT**

The Department Detail presents each operating activity at the division level with a *division mission, description of programs, specific goals and objectives* for FY 2009, *major accomplishments* in FY 2008, and *performance indicators* that measure the efficiency and/or effectiveness at the program level.

To assist the City Manager in the management of the resources expended by the municipality, the budget also serves as an operational guide. The operating budget presentation includes, for comparative purposes, the *Actual Expenditures for FY 2007*, the *Estimated Actual for FY 2008*, and the *Adopted Budget for FY 2009*. Expenditures are shown by category as well as cost center (program/activity). The comparatives in the Financial Summaries Section are presented at the fund level and the department level to aid division and program managers in budget tracking and accountability.

### ***Categories presented are:***

- Personal Services (salaries, fringe benefits, internal labor, et al)
- Contractual (professional services, utilities, maintenance, rents, debt service, et al)
- Commodities (small equipment, parts, office supplies, operating supplies, et al)
- Capital Outlay (professional services, land, buildings, street, water and sewer construction, equipment, et al)

### ***Fund, Department, and Division Structure:***

The City uses funds to report its financial position and the results of its operations. Fund accounting segregates funds according to their intended purpose and is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain governmental functions or activities. A fund is a separate accounting entity with a self-balancing set of accounts, which includes assets, liabilities, fund equity, revenues and expenditures/expenses.

Within each Fund there may be several Departments. Departments also may encompass several Funds. The Department level is the legal level of budget authority.

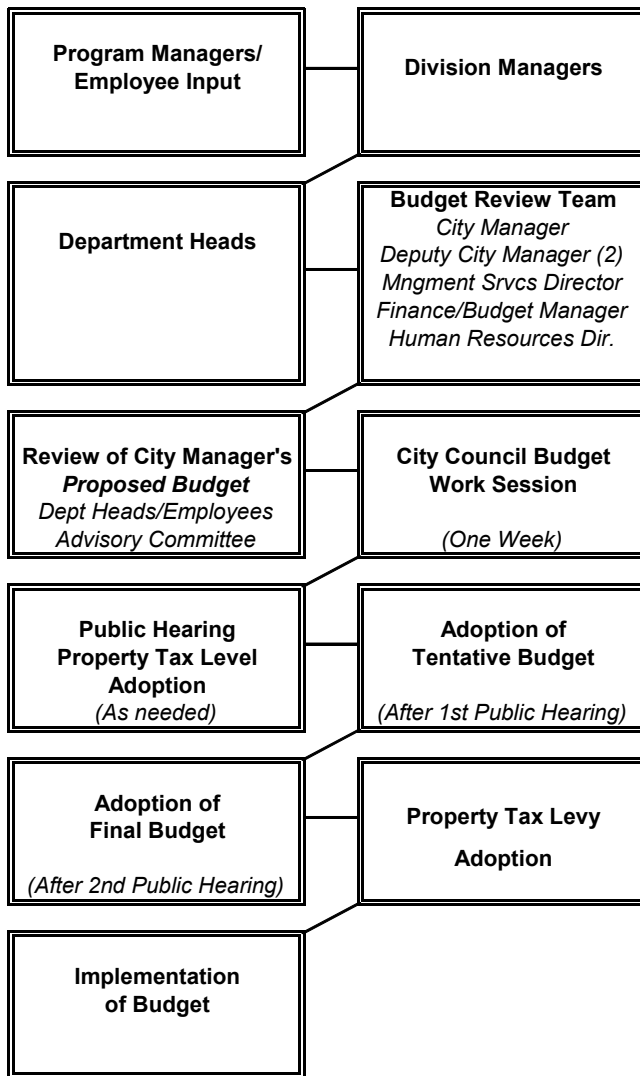
Departments are groups of Divisions that serve a similar function with the City. In addition, within each Division are Programs, which capture all expenditures, related to an activity, cost center, or location of operation within a division.

The following table represents the structure for the City.

DEPARTMENTS	General Administration	Management Services	Community Development	Fire	Police	Public Works	Utilities	Non-departmental
<b>FUNDS</b>								
<b>General Fund</b>	City Manager City Clerk Human Resources Risk Management City Attorney Municipal Court	Information Systems Management Services Administration Tax, Licensing & Revenue Finance & Budget	Administration Capital Improvements Development Services Engineering Community Investment	Fire	Police	Administration Parks Fleet Cemetery Facilities Maintenance Recreation		Council and Commission Contributions Non-departmental
<b>Library</b>		Library				Street Maintenance & Repairs		
<b>Highway User Revenue</b>								
<b>Transportation</b>			4th Street Overpass Safe to School Safety Improvements					Transit
<b>Economic Development</b>								Economic Development
<b>Beautification</b>			Beautification					
<b>Tourism</b>	Convention & Visitors Bureau Visitor Services							
<b>Recreation</b>						Recreation		
<b>Arts &amp; Science</b>			Arts & Science					
<b>Real Estate Proceeds</b>								Real Estate Proceeds
<b>Housing and Community Services</b>			Housing and Community Services					
<b>Metropolitan Planning Organization</b>			Metropolitan Planning Organization					
<b>G.O. Bond Fund</b>								G.O. Bond Fund
<b>Secondary Property Tax</b>								Secondary Property Tax
<b>Special Assessment</b>								Special Assessment
<b>Perpetual Care</b>								Perpetual Care
<b>Capital Projects Bond</b>								Capital Projects Bond
<b>Water &amp; Wastewater</b>							Administration Lake Mary Water Treatment Plant Customer Service Water Distribution Services Booster Stations Wastewater Treatment Plants Wastewater Collection Wastewater Monitoring	
<b>Airport</b>						Airport		
<b>Environmental Services</b>						Environmental Services		
<b>Stormwater</b>			Stormwater					
<b>Expendable Trust</b>								Firemen's Pension

## BUDGET PROCESS

### Budget Process Flowchart:



### Presentation:

- The *Transmittal* provides a summary of the key policy issues, priorities, and strategies that shaped the budget as framed by the City Manager.
- The *Budget Overview* summarizes financial resources and expenditures along with fund summaries and an overview of selected revenues.
- *Policies and Procedures* provide an overview of both fiscal and budgetary practice.
- Budget Issues were prepared for Council review and discussion during their Fall and Spring retreat and the budget study sessions. Highlights of the issues reviewed are included in the *Issues and Updates* section.
- The *Financial Summaries* section includes various schedules utilizing revenue and expenditure classifications and tax levy information in accordance with state reporting requirements as mandated by statute. Expenditures are reported at

## BUDGET CALENDAR

BUDGET CALENDAR	
December	Budget Module available to all Divisions
January 15	Capital improvement and equipment requests reviewed by Capital Improvements and Purchasing
March 3 - March 25	Review with Department Heads and City Manager
March	Personnel review of reclassification requests completed
April 22 - 24	Council Study Sessions Proposed Budget available to public
June 3	Tentative budget and tax levy hearing Tentative budget adoption
June 17	Truth in taxation hearing Final budget and tax levy hearing Final budget adoption
June 18	Notify Property Tax Oversight Commission of Compliance with Truth in Taxation
July 22	Adopt Property Tax Levy

both the fund level and the department level for operational control purposes.

- The *Department Detail* section provides both narrative and financial data. The budget commentary provides an explanation of significant budget changes for FY 2009.
- The *Capital Improvement Plan* (CIP) for FY 2009 lists projects, costs, and funding sources in the Capital Improvement (CIP) Section.
- The *Community Profile* section outlines key factors that contribute to the uniqueness of our community.
- A detailed listing of personnel and changes over the last five years is provided in the *Appendix* Section.

**Review and Approval:** Issues presented during the review and approval period include discussion topics of the Council Spring retreat. The Spring retreat was held in February, to give city staff the opportunity to present major discussion points to Council and the public. The goal is for Council to make policy decisions and direct staff in budget priorities. This provides adequate time for the Council to gather input on major budget issues prior to preparation of the budget. The City Council holds Study Sessions in April. The Council reviews and discusses the issue papers included in the Budget Review Book as well as all personnel recommendations, capital equipment recommendations, and the capital

improvement plan. The Council arrives at a consensus for all decisions needed. The Study Sessions provide the opportunity for City management, departments and the public to offer information and recommendations to the City Council.

The Proposed Budget is presented to Council for tentative adoption on or before the third Monday in July. Two public hearings are held on the content of the budget. Final adoption occurred on June 17, 2008. State law requires the operating budget to be all-inclusive. Therefore, the budget includes provisions for contingent revenues, e.g., Passengers Facility Charges, and expenditures that cannot be accurately determined when the budget is adopted, e.g., grants. The Resolution adopting the annual budget requires Council authorization for any expenditure from contingencies, as well as transfer of budget authority between departments.

**Adoption:** The City operates under the State Expenditure Limitation with a permanent adjustment to the base. The first adjustment provided for an increase to the base limit to allow for the expenditure of funds resulting from the addition of a 2% Bed, Board, & Booze Tax. Flagstaff is not a Home Rule city. Alternative [Home Rule] Expenditure Control municipalities require voter approval every four years.

The City received voter approval in the May 2006 general election for a second adjustment to the expenditure limitation base. This permanent adjustment was effective for the FY 2007 budget year and increased the current expenditure limitation by approximately \$25 million.

The Adopted Budget reflects the total funds appropriated (\$230,158,982). Certain exclusions are allowed by the state [e.g., bond proceeds, debt service, grants] in computing the Expenditure Limitation (\$118,190,325), and this total cannot be exceeded.

Budget authority can be transferred between line items within a Division. At year-end, Department budgets are reviewed and budget authority is transferred from contingencies by Resolution as necessary. Additionally, any inter-fund transfer of appropriations requires Council approval. Council can also amend total appropriations for a fund during the year by Resolution as long as there is a corresponding increase/decrease in another fund so that the expenditure limitation is not exceeded.

## **ASSUMPTIONS AND STRATEGIES**

### **ECONOMIC OVERVIEW AND REVENUE FORECAST**

The City of Flagstaff continues to have mixed economic indicators for the coming Fiscal Year. Economic

strength is reflected positively through the growth in local sales tax, and property tax, however, state shared revenues are faltering. Economic weaknesses are apparent in our community in two ways. First the average home price continues to increase beyond the means of the majority of middle class workers. Second, the community is increasingly dependent on tourism and those jobs based in the tourism industry are generally at the lower end of the wage scale.

The City collects three different retail sales taxes. The first is a 1% tax on all general sales, except for food. This tax is a general purpose tax that benefits the General Fund. The City collects 0.721% on the same types of general sales; however the tax is restricted in use to certain transportation projects. The third tax the City collects is a Bed, Board, and Beverage tax that collects an additional 2% for motel rooms/campgrounds, restaurants, and bars. The City of Flagstaff is the only City left in the State of Arizona that has a sunset clause on the General Sales Tax. This tax must go before the voters every 10 years to be revalidated. This tax next expires in 2014. The City unsuccessfully tried to have the sunset clause removed in 2004. The City is currently looking again to either have the sunset clause removed and/or to have the tax extended in 2010. The transportation tax has four separate components. The transit portion of this tax expires in 2010 and the City worked with the Northern Arizona Intergovernmental Public Transit Authority (NAIPTA) to have this portion of the tax extended. The May 2008 election extended the transit portion of the tax by 10 years and also increased the base from 0.175% to 0.295% realizing an approximate \$2.2 million increase for transit services. The total transportation tax increased from 0.601% to 0.721%. All transportation tax components will now expire in 2020. As this funding converts from construction to maintenance the City will pursue a permanent component to this tax. The 2% BBB tax expires in 2013. As this tax has also moved from construction to maintenance, it will be important to have it extended past the 2013 date. The City is working cooperatively with the local hoteliers and restaurateurs to evaluate the allocation and the continuation of this tax to best meet the community needs.

Local sales tax has been bolstered in recent years by construction activity and steady increases in most retail categories. The construction activity had primarily been in the residential sector but this past year has seen an extreme downturn. The City is seeing regeneration in a number of commercial projects. The overall budgeted increase in local sales tax is 11.2%. Individual components of the increase include 17.2% primarily in commercial construction, 17.0% in general merchandise sales due to the Mall and Aspen Sawmill openings, and 16.3% in auto sales due to the new Auto Mall.

The City is also anticipating a 1.2% increase in the Bed, Board, and Beverage (BBB) tax. This increase is primarily due to the growth in our local tourism industry.

Indicators such as the Revenue per Available Room (RevPAR) reach new levels every quarter. These estimates include some impact from a Conference Center to be completed on the Northern Arizona University (NAU) Campus in 2008. Minimal estimates have been included to date as NAU has only started taking reservations for further events and it is unknown at this time how successful they will be in filling their venue in the first year.

Property tax revenues were negatively impacted in FY2007 due to legislation that reset the maximum primary property tax base to the 2005 level. This legislation decreased the maximum allowable assessment for the City of Flagstaff in excess of \$4 million dollars. The City is now held to annual increases of the value added by new construction and 2% on existing property, regardless of the change in assessed valuation. Property taxes will increase by 5.5% in FY2009. As assessed valuation increased at a much greater rate than the allowed 2% increase, the actual primary property tax rate will decrease from a mil rate of \$0.7153 to \$0.6803, realizing an annual savings of \$10.50 to a \$300,000 home. There is also a pending lawsuit from the Qwest Corporation seeking past and future relief on assets they assert have been overvalued. There is no estimate at this time of the impact to the City should Qwest be successful in this suit.

State shared revenue consists of both a distribution of sales tax and income tax. These distributions are made based on a city or towns' relative share of population in comparison with all other cities and towns. Except during census years, Flagstaff's population is determined by the Arizona Department of Economic Security based on a number of factors including new homes and school enrollment. Flagstaff's greatest challenge is that while the population is growing, it is growing at a slower rate than some of the other communities in the state. This has translated into a decreased proportionate share in the past. Currently, the City is holding a steady population percentage in relationship to the rest of the state at 1.26%.

The City is concerned about the 2010 federal census count. In the 2000 census, the City experienced a U. S. Census determined that the City has only grown by approximately 200 people from the 1995 special census. Even though the City of Flagstaff could prove the federal census was incorrect, the Census Bureau declined to make any adjustments. This cost the City in excess of \$2 million dollars in reduced funding that the City is only now recouping back to the FY2002 levels.

The State of Arizona is experiencing extreme shortfall in state sales tax and state income tax. State sales tax collections are currently 1.7% behind last years collections. State sales tax projections were reduced by an additional \$780,000 for the FY2009 budget year as of April 2008. The City addressed this revenue shortfall by reducing certain one-time expenditures. As of June

2008, the Arizona State Legislature is looking at additional reductions in sales tax revenue distributions, and the City anticipates having to make additional budget cuts to accommodate.

State income tax is currently held statutorily at a minimum base level for FY 2009 but decreases are anticipated for all years following due to tax cuts implemented in 2007. The statutory base is currently at risk as the state looks to balance their budget. This could decrease City revenue by approximately \$200,000 in FY2009. Income and population growth have not sustained the state income tax as previously anticipated. The City continues to budget these funds conservatively.

Highway user tax revenues are projected to end the year under budget and to be flat in FY 2009. The latest news from the State decreases the amount shared with cities and counties which could translate into an approximate \$500,000 decrease to the City. These revenues are distributed based on a fairly complex Arizona Department of Transportation formula, based in part on the amount of fuel purchased in our region. As fuel prices continue to increase, it is difficult to determine if Flagstaff will continue to be a large drive-time destination for surrounding communities including Phoenix and Las Vegas.

In addition, the City must find ways to address the affordable housing crisis. Trends in housing prices in Flagstaff indicate that the average home price in 2000 was \$170,372. The household income needed to purchase a house was \$47,000 and the median Flagstaff household was only slightly under this at \$45,500. In 2006, the average home price was \$376,519. The household income needed to purchase this house is \$95,000 but the median household income is only up to \$54,200. While the housing market locally has stabilized, it has not decreased. The City in conjunction with a number of community partners offer a number of housing assistance programs, but for the majority of new residents to the area, the housing is unaffordable. In addition, the City is working on a land trust and requiring affordable housing components in new developments to help allay this problem.

This high cost of housing coupled with a lack of high level technical, manufacturing or administrative jobs also causes 'brain drain' from the community. With the location of one of the three major universities in our community and a well developed community college, Flagstaff has the ability to recruit for a wide array of higher level positions; however the community is challenged to recruit new business, in part due to the high cost of living. It is a very circular issue that the City works on from a number of perspectives.

## EXPENDITURES

The adopted budget is based on fiscal restraint consistent with conservative and sustainable revenue estimates. The base budget approach has required operational cost reviews and redistributions of all Departments.

**Efforts to Control Expenditures** – The Fleet Management Committee reviews all equipment replacement requests and prioritizes those needs. A long-range planning approach is utilized to level cash flow requirements from one year to the next. The Fleet Committee has developed a five-year plan and continues the process of reviewing the plan to identify cash flow needs and develop alternatives to better allocate future resources. Due to varying demands, the Fleet budget is flexible, allowing monies to shift within the five-year planning period.

**Fund Balance** – The carryforward of fund balances remain at a level that protects the financial integrity of the City. Moody's bond rating for the City is Aa3. The projected fund balance at the end of FY 2009 is estimated at \$8,730,066 in the General Fund. A general fund balance equal to 15% of general fund revenues is anticipated to maintain a sound financial position. The General Fund balance is currently budgeted at 16.2%.

The FY 2009 budget continues to use excess fund balances for one-time capital expenditures, facilities and redevelopment. In addition, a portion of the current fund balance represents carryforward of expenditures in equipment and capital projects.

The City of Flagstaff has dual challenges in expenditure funding. The first is operational growth due to accelerated personnel cost increases. The City is trying to keep salaries in line with other communities throughout the state, as determined by a market survey. The average employee will receive a 4.2% increase for FY 2009. The City will also fund increases in the public safety retirement system.

The City has also had to use most of the reserves in most of the funds to be able to complete existing capital projects. Double digit cost increases have translated into numerous capital projects exceeding budget.

As noted in the revenue section, while the budget is currently balanced the City may need to react quickly to the changing State environment. The City will proactively work on solutions to these issues throughout the budget year.

**Council Guidelines** – The budget guidelines set forth by the City Manager were formulated based on Council concerns and goals.

The Council developed ten goals that encompass the areas of Affordable Housing, Economic Development and Redevelopment, Capital Improvement, Public Safety, Customer Service, Quality of Life, Fiscal Health, Organizational Support, Collaboration, and Planning for Growth. These were refined into the five priorities described in the City Manager's Message.

- *Estimated Actual Expenditures FY 2008.* Divisions were asked to estimate expected expenditures by line item for FY 2008. Overages and underages (and reasons, theretofore) were used to adjust the recommended budget for various line items in FY 2009. This resulted in a reduction of a substantial number of line items, thereby allowing resources to be reallocated without inflating the total appropriations required.
- *Staffing Requests/Increases in Level of Service.* Departments were required to provide narratives for increases in service levels and addition of staff. New staff additions were encouraged to have an independent funding source, or were needed to maintain current service levels.
- *Fleet Management.* All fleet equipment replacement requests were reviewed and prioritized by the Fleet Management Committee within financial parameters.
- *Information Systems.* Management Information Systems Staff reviewed hardware and software needs. Funding was established to maintain funding at a level dollar amount to meet existing and future needs for current service levels including upgraded equipment and software.
- *Capital Improvements.* The Capital Improvement staff reviewed all requests of capital projects or public improvements that require time charge outs from that division.
- *Operational Impacts.* All funds are continually evaluated relative to five-year financial projections. Increased service levels due to new programs or capital construction were projected to determine operating impacts in future years.



## **FUND SUMMARIES**

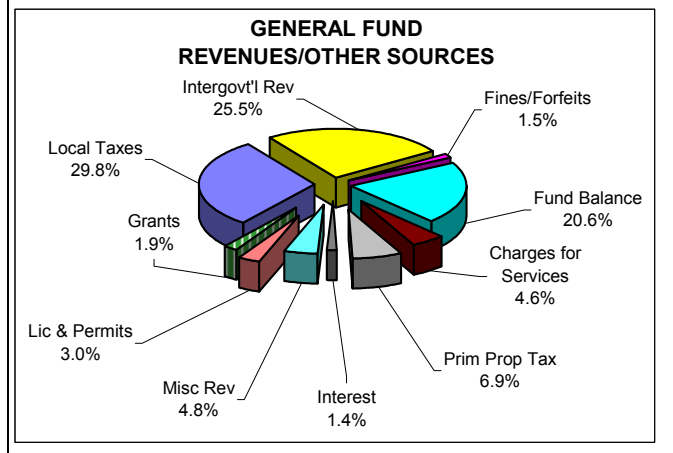
### **GENERAL FUND**

The General Fund includes all City operations, except enterprise activities (operations which are to be self-sustaining), e.g., Utilities, Environmental Services, the Airport, and Stormwater; activities funded from a special revenue source dedicated to that activity, e.g., the BBB Tax funds, the Transportation tax funds, Streets; Library; Housing and Community Services; and Transportation Planning (MPO).

Total resources available for General Fund expenditures for FY 2009 are \$71.6 million including the beginning fund balance of \$24.9 million. A substantial portion of General Fund resources comes from two revenue categories: 1) local sales and franchise taxes and 2) intergovernmental revenues (specific detail including comparative data is shown in Schedule 3 of Financial Summaries Section). A more detailed review of major revenue categories, including historical trend information, is provided following the fund summaries.

General Fund revenue/other sources compared to the year-end estimates have decreased by 5.3%. The City is anticipating growth in City sales tax, and charges for services due to the opening of the Aquaplex in late summer 2008. The decrease in financial resources is due to increased transfers out to other funds in anticipation of capital project completion.

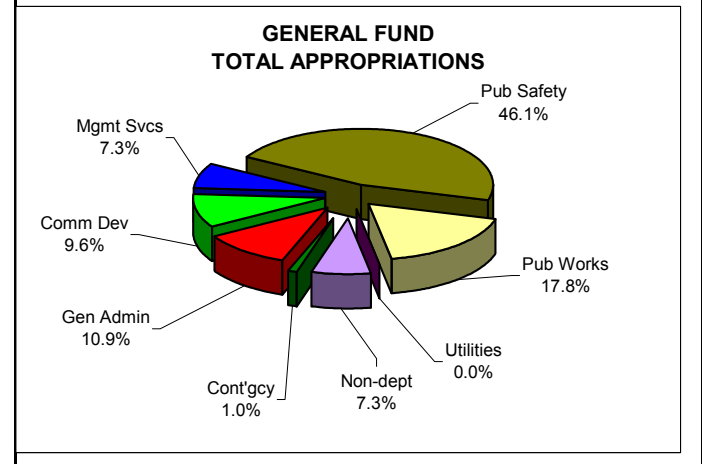
REVENUES/OTHER SOURCES	EST ACTUAL FY2008	BUDGET FY 2009
Licenses and permits	\$ 1,805,863	\$ 2,180,255
Grants	2,433,991	1,336,262
Local taxes	19,660,368	21,314,557
Intergovernmental	18,265,335	18,267,421
Fines and forfeits	1,117,737	1,097,379
Fund Balance, net of Transfers	21,827,058	14,719,336
Fund Balance for Carryovers	1,593,259	1,490,800
Charges for services	1,917,227	3,293,581
Primary Property Tax	4,726,831	4,914,271
Interest	1,025,000	973,750
Miscellaneous	1,188,275	1,991,691
	<b>\$ 75,560,944</b>	<b>\$ 71,579,303</b>



General Fund total appropriations compared to year-end estimates have increased by 24.0%. The appropriation growth is due to increases in salaries, benefits, insurance, and capital projects.

The financial position of the General Fund (after cost allocation distribution) remains strong. Accumulated funds will continue to be spent in Flagstaff for development opportunities.

APPROPRIATIONS	EST ACTUAL FY2008	BUDGET FY 2009
General Administration	\$ 6,107,552	\$ 6,869,877
Community Development	5,102,679	6,021,399
Management Services	4,389,208	4,609,985
Public Safety	26,684,092	28,964,563
Public Works	8,561,702	11,182,579
Utilities	21,441	26,125
Non-departmental	(194,534)	4,574,709
Contingencies	-	600,000
	<b>\$ 50,672,140</b>	<b>\$ 62,849,237</b>

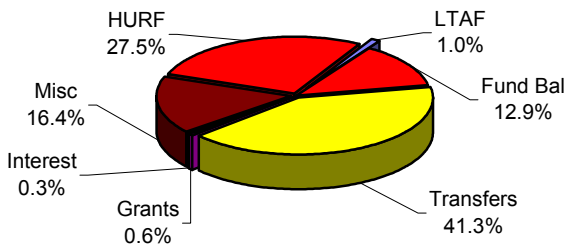


## HIGHWAY USER REVENUE FUND

### REVENUES/OTHER RESOURCES

HURF	\$ 8,083,215
LTAF (lottery)	300,246
Fund Balance	3,785,483
Transfers (net)	12,142,567
Grants	180,000
Interest	95,000
Miscellaneous	4,792,636
	<u>\$ 29,379,147</u>

### STREET REVENUES/OTHER RESOURCES

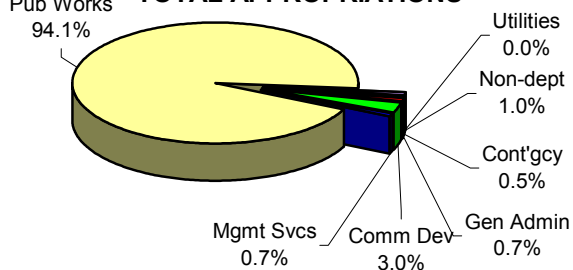


The Highway User Revenue Fund (HURF) is mainly supported by transportation related taxes distributed to the Cities and Counties by the State. Appropriations total \$26.2 million in FY 2009. Projects budgeted includes the annual pavement maintenance program, and Sunnyside Street Improvements.

### APPROPRIATIONS

General Administration	\$ 193,821
Community Development	791,706
Management Services	187,242
Public Works	24,642,182
Utilities	1,723
Non-departmental	260,572
Contingency	100,000
	<u>\$ 26,177,246</u>

### STREET TOTAL APPROPRIATIONS



## TRANSPORTATION FUND

The Transportation Fund was formed in FY 2001 as a result of voter authorization on May 16, 2000 to increase sales taxes to support four transportation issues. The tax increase is valid for twenty years. The Sales Tax revenue collected for transportation is recorded in this fund. The expenditures related to Transit and 4th Street Overpass are appropriated in this fund. Expenditures related to Safety Improvements and Street Improvements are accounted for in the HURF and Beautification funds. Appropriate transfers are made to fund the various projects that this tax supports.

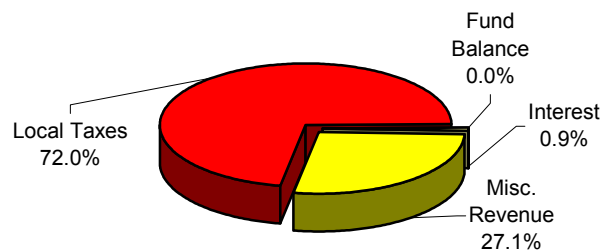
Projects	Budget FY 2009 Revenues
4th Street Overpass	\$ 2,950,420
Safe-to-School, Pedestrian and Bike	1,475,204
Traffic Flow and Safety Improvements	3,429,860
Transit Service Enhancements	5,439,836
Totals	<u>\$ 13,295,320</u>

Appropriations total \$5.8 million in FY 2009. Appropriations are comprised of \$3.7 million for transit operations, and \$2.0 million for debt service. Transfers include \$10.0 million to the HURF Fund for Safety and Street Improvements and \$550,000 to fund FUTS projects in Beautification. The tax rate for transportation is .721%.

### REVENUES/OTHER RESOURCES

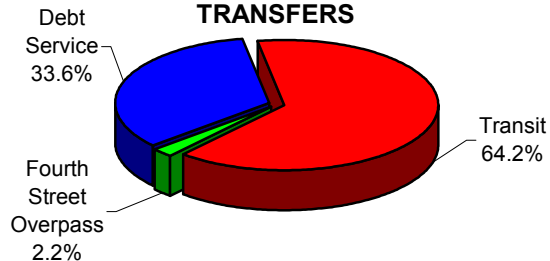
Local Taxes	\$ 13,295,320
Fund Bal, net of Transfers	(9,645,540)
Interest	162,000
Misc. Revenue	5,000,000
	<u>\$ 8,811,780</u>

### TRANSPORTATION REVENUES/OTHER RESOURCES



**APPROPRIATIONS/TRANSFERS**

Transit	\$ 3,721,110
Fourth Street Overpass	125,000
Debt Service	1,951,108
	<u>\$ 5,797,218</u>

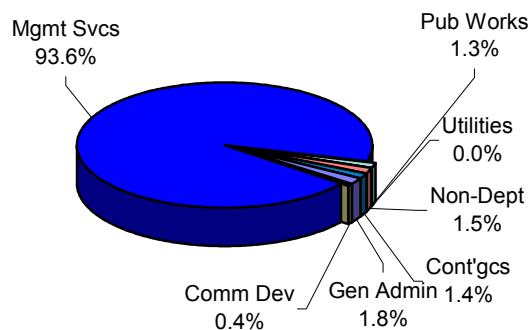
**TRANSPORTATION  
TOTAL APPROPRIATIONS/  
TRANSFERS**

The City operates a joint City-County Public Library with auxiliary programs in outlying county locations and bookmobile services. \$4.1 million of the funding for library operations comes from the library district tax.

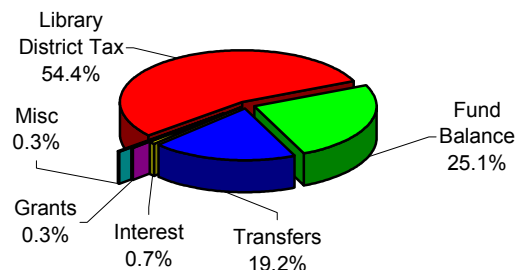
During 1997, the County, in concert with the affected entities throughout, developed a new funding formula for the distribution of the tax. The formula provides a base amount for all entities and the distribution of any additional monies as directed by the Library Council with affirmation by the County Board of Supervisors.

**APPROPRIATIONS**

General Admin	\$ 132,253
Community Development	27,708
Management Services	6,741,890
Public Works	93,327
Utilities	1,002
Non-Departmental	110,184
Contingencies	100,000
	<u>\$ 7,206,364</u>

**LIBRARY  
TOTAL APPROPRIATIONS****REVENUES/OTHER RESOURCES**

Library District Tax	\$ 4,053,121
Fund Balance	1,869,964
Transfers (net)	1,430,262
Interest	50,000
Grants	25,000
Miscellaneous	29,000
	<u>\$ 7,457,347</u>

**LIBRARY  
REVENUES/OTHER RESOURCES**

## BBB FUNDS

A dedicated 2% Bed, Board and Booze sales tax collected on the services provided by lodging, restaurants and bars, was approved by voters in 1988 with a sunset clause in 10 years and extended by the voters for 15 years in the 1996 general election. The BBB tax approved by voters will expire in 2013. The funds were allocated into the following percentages:

Economic Development	9.5%
Beautification	20.0%
Tourism	30.0%
Recreation	33.0%
Arts & Science	7.5%

Since inception, the City has experienced a continual growth in BBB revenues. Revenue for fiscal year 2009 is anticipated to have a growth of 1.2%. Activities funded with the revenues have made operating adjustments necessary and these changes will be reflected within each five-year plan.

**Beautification Fund:** Total resources available for Beautification Fund activities amount to \$7.8 million including carryovers and approved grants. Expenditures from this fund are primarily for capital improvements. (See the CIP Section for project list.)

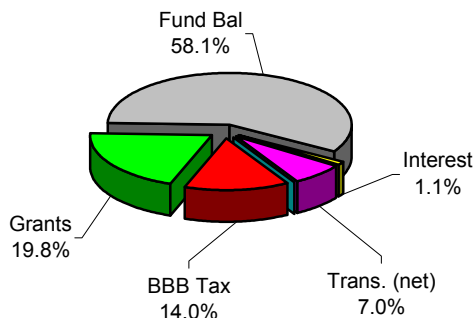
### REVENUES/OTHER RESOURCES

BBB Tax	\$ 1,102,966
Grants	1,555,880
Fund Balance	4,566,904
Interest	83,361
Transfers (net)	553,754
	<u>\$ 7,862,865</u>

### APPROPRIATIONS

Community Development	\$ 7,567,548
Reserve	10,000
	<u>\$ 7,577,548</u>

### BEAUTIFICATION REVENUES/OTHER RESOURCES



**Tourism Fund:** Total resources available in FY 2009 are \$2.3 million. The total appropriations are \$2.1 million, which includes a \$100,000 reserve for contingencies.

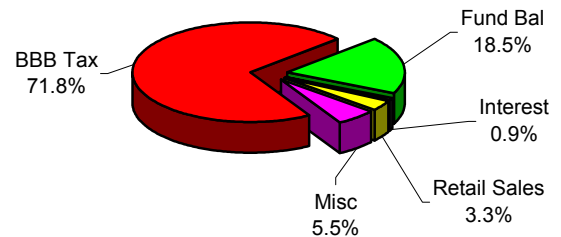
### REVENUES/OTHER RESOURCES

BBB Tax	\$ 1,654,449
Fund Bal, net of Transfers	426,697
Interest	20,500
Retail Sales	75,000
Miscellaneous	127,856
	<u>\$ 2,304,502</u>

### APPROPRIATIONS

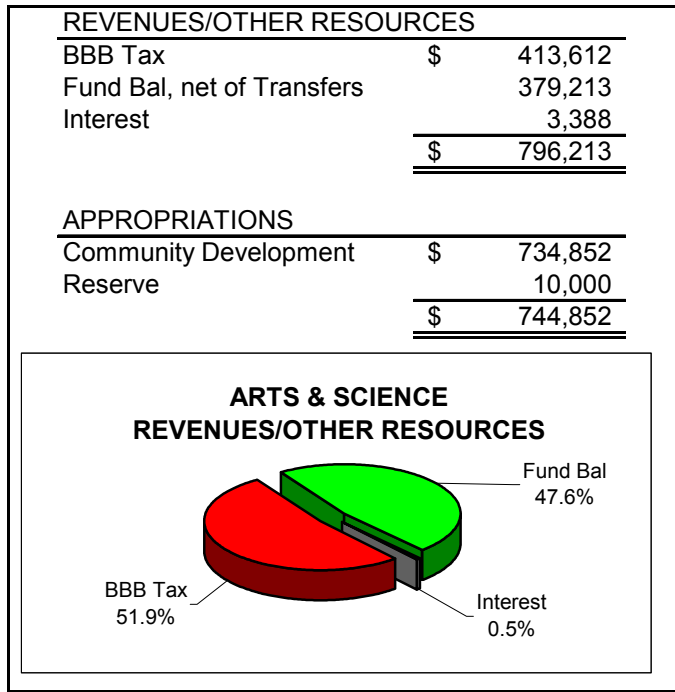
General Administration	\$ 2,021,685
Reserve	100,000
	<u>\$ 2,121,685</u>

### TOURISM REVENUES/OTHER RESOURCES

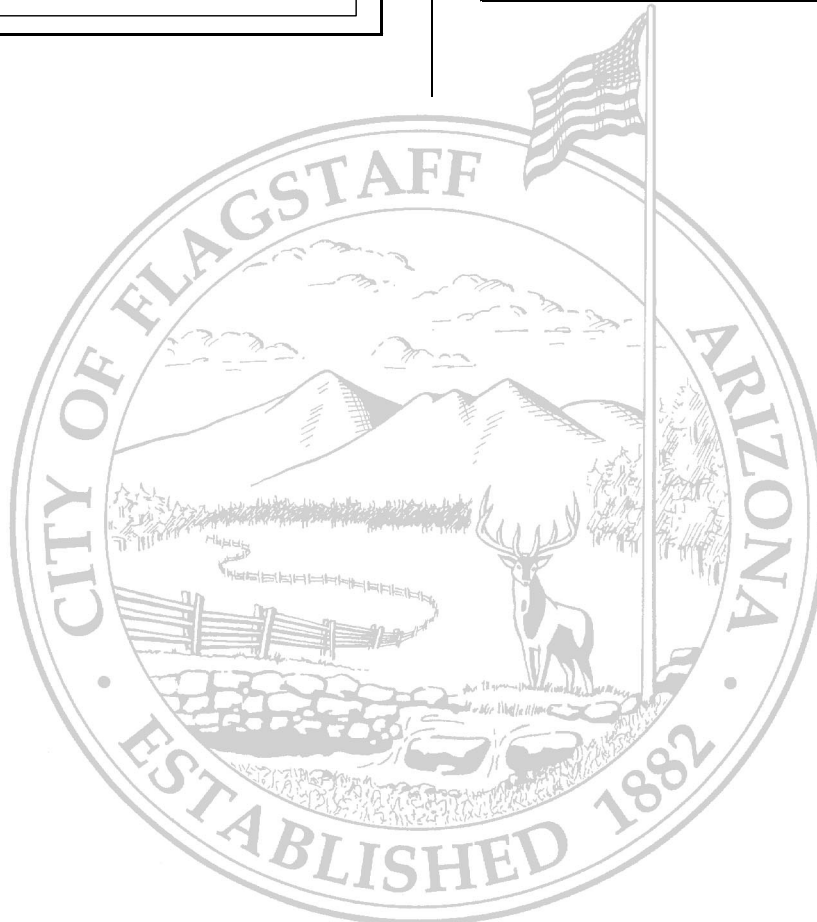
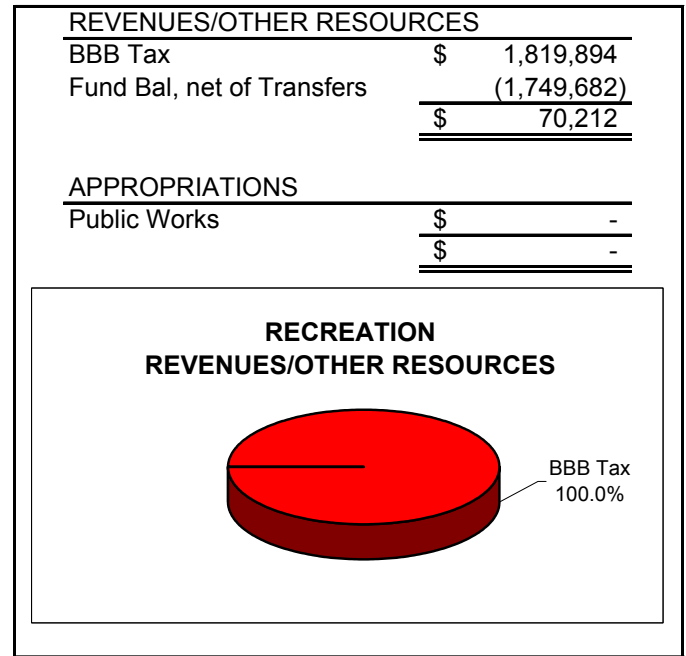


Expenditures include ongoing marketing programs and one-time expenditures for capital. Included in the budget for Tourism is a strategic plan intended to provide guidance in determining markets, promotion directed at these markets, and measurement tools.

**Arts & Science Fund:** Total resources available for Arts & Science activities are \$796,213. Expenditures include contributions to local organizations and Art in Public Places. Contributions to Other Agencies are \$305,000 and Art in Public Places has \$252,414 that is derived from a 1% allocation from citywide eligible capital project expenditures. Administrative expense of \$73,500 is paid to the Flagstaff Cultural Partners. Revenues received from the BBB tax are estimated to be \$413,612.



**Recreation Fund:** There are no appropriations in FY 2009 for Recreation Fund activities. Per discussion with City Council in the Spring 1996 retreat, Council concluded this funding should support the expansion of existing facilities and the associated maintenance. Through regular economic growth, however, the fund balance is again starting to accumulate. Recreation staff will be preparing and prioritizing future capital projects appropriate to this funding



**Economic Development Fund:** This fund continues to focus on business retention and attraction as well as workforce development. In addition, the City funds the business incubation program, structured to allow university professors and local entrepreneurs to work in a supportive environment to develop ideas into commercial business models. The City will continue to seek targeted industries to relocate to the community. Those industries will be complementary to existing businesses or will be supportive of community goals such as clean energy, sustainability or BioScience. Total resources allocated to this effort are \$1,316,663 with all monies from BBB dedicated tax for economic development and a general fund contribution of \$322,000 to support the business incubator.

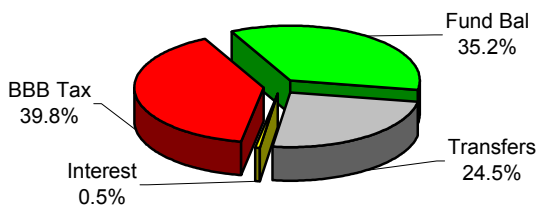
#### REVENUES/OTHER RESOURCES

BBB Tax	\$	523,909
Fund Balance		463,754
Transfers		322,000
Interest		7,000
	\$	<u>1,316,663</u>

#### APPROPRIATIONS

Non Departmental	\$	1,109,386
Reserve		25,000
	\$	<u>1,134,386</u>

#### ECONOMIC DEVELOPMENT REVENUES/OTHER RESOURCES



## OTHER FUNDS

**Metropolitan Planning Organization:** This fund was established to account for funding derived from the area's status as a designated Metropolitan Planning Organization (MPO). The MPO receives Federal funding administered through the Arizona Department of Transportation (ADOT).

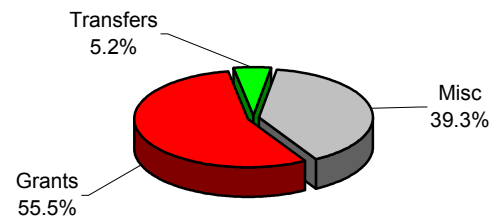
#### REVENUES/OTHER RESOURCES

Grants	\$	317,404
Transfers		30,000
Miscellaneous		225,000
	\$	<u>572,404</u>

#### APPROPRIATIONS

Community Development	\$	449,782
Non-Departmental		22,622
Contingency		100,000
	\$	<u>572,404</u>

#### MPO REVENUES/OTHER RESOURCES



The MPO has appropriated \$572,404 for this program for FY 2009. This includes operating funds for transportation and transit planning. Transit operating funds are not included in this budget since that service is contracted through Coconino County.



### Housing and Community Services:

This fund finances activities in conjunction with the CDBG program and affordable housing activities. There is \$4.1 million appropriated to this activity for FY 2009. Expenditures in this fund include \$1.4 million for land acquisition, \$1.3 million in CDBG related activities, and \$600,000 in state grants activities and \$450,000 for Community Homebuyer Assistance Program.

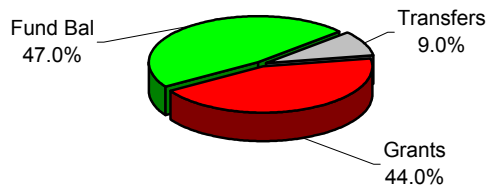
#### REVENUES/OTHER RESOURCES

Grants	\$	1,844,316
Fund Balance		1,969,435
Transfers		375,400
	\$	4,189,151

#### APPROPRIATIONS

Community Development	\$	4,051,771
	\$	4,051,771

#### HOUSING AND COMMUNITY SERVICES REVENUES/OTHER RESOURCES



**Real Estate Proceeds:** The Real Estate Proceeds fund is currently restricted to the purchase of real estate. The appropriations total is \$0.5 million for FY 2009 for facility development.

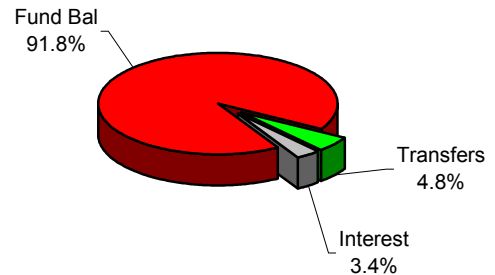
#### REVENUES/OTHER RESOURCES

Fund Balance	\$	474,046
Transfers		25,000
Interest		17,350
	\$	516,396

#### APPROPRIATIONS

Non-Departmental		500,000
	\$	500,000

#### REAL ESTATE PROCEEDS REVENUES/OTHER RESOURCES



## ENTERPRISE FUNDS

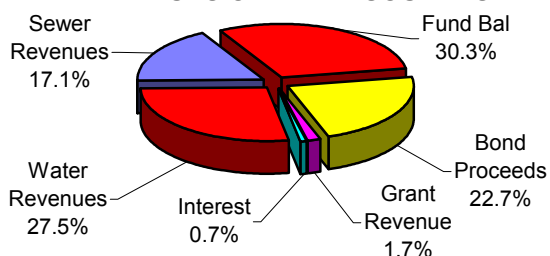
**UTILITIES FUND:** The City's water and wastewater operations are operated as an Enterprise Fund activity, i.e., self-sustaining operations with user fees and charges based on a "cost-of-service" methodology. The rate model determines the minimum revenue requirements needed to support operations including: all operating and maintenance costs; capital improvements considered routine in nature; principal and interest payments on bonded debt related to utility construction; and maintaining a year-end fund balance sufficient to ensure adequate working capital. Total appropriations for the Utilities Fund are \$44.5 million. Resources include \$13.7 million in water revenues and \$8.5 million in sewer revenues.

**Water Operations:** Total appropriations relating to direct costs for the water operations are \$23.0 million. Water fees are the major source of revenue supporting water operations. Bond funds support well development and land acquisition. Revenue estimates total \$13.7 million for water sales. A rate increase was approved for FY 2009 to help repay debt service for bond projects.

### REVENUES/OTHER RESOURCES

Water Revenues	\$ 13,714,953
Sewer Revenues	8,500,479
Fund Bal, net of Transfers	15,070,935
Bond Proceeds	11,300,000
Grant Revenue	849,503
Interest	356,000
	<u>\$ 49,791,870</u>

### UTILITIES REVENUES/OTHER RESOURCES

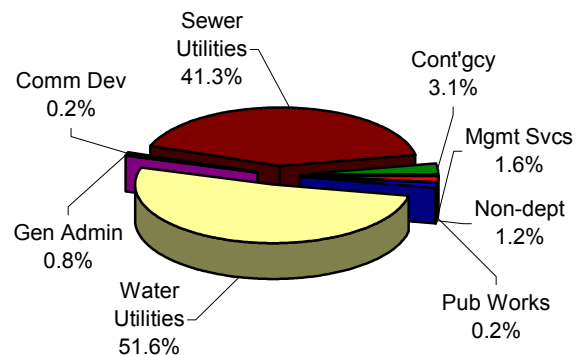


**Wastewater Operations:** Total appropriations relating to the direct costs for the wastewater operations are \$18.4 million. Wastewater (sewer) fees are the major source of revenue supporting wastewater operations. Bonds will fund future water rights, water production wells, and completion of major improvements to the Wildcat Wastewater Treatment Facility. Revenue estimates total \$8.5 million in wastewater service charges. A rate increase was approved for FY 2009 to help repay debt service for bond projects.

### APPROPRIATIONS

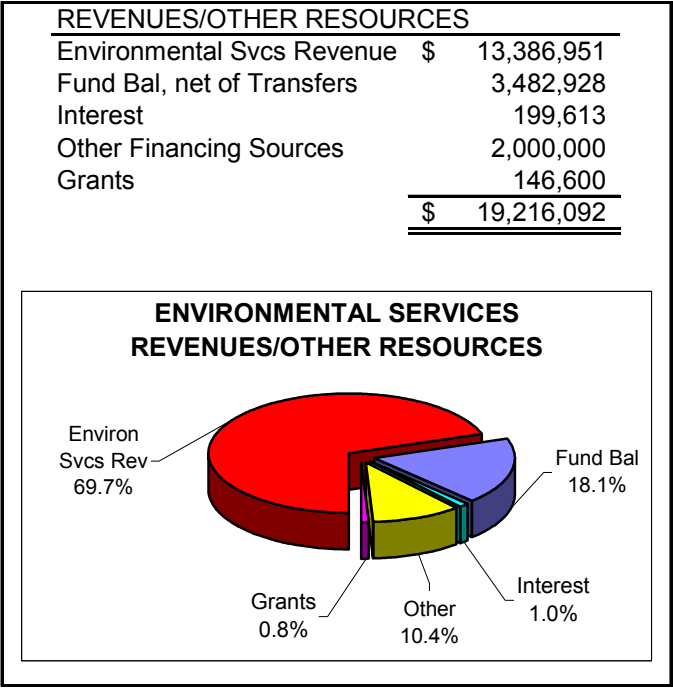
General Administration	\$ 357,908
Community Development	101,872
Management Services	713,770
Public Works	80,233
Non-departmental	519,805
Water Utilities	22,982,734
Sewer Utilities	18,384,327
Contingency	1,400,000
	<u>\$ 44,540,649</u>

### UTILITIES TOTAL APPROPRIATIONS

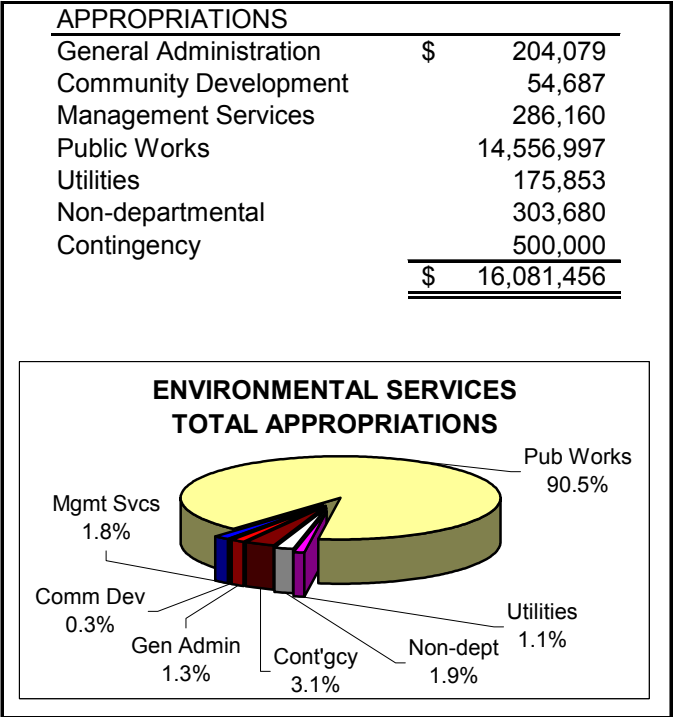




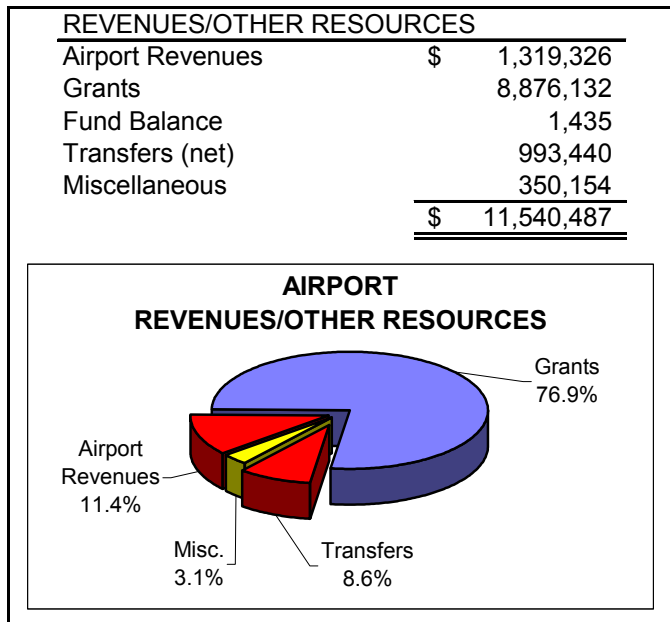
**ENVIRONMENTAL SERVICES FUND:** Total financial resources are \$19.2 million. User fees are the major revenue source of solid waste disposal operations. The user fees are comprised of eight major customer services areas (residential sanitation, curbside recycling, commercial sanitation, hoist and haul, landfill dumping, inert materials pit, environmental, and commercial recycling) with different rates for each category based on cost of service.



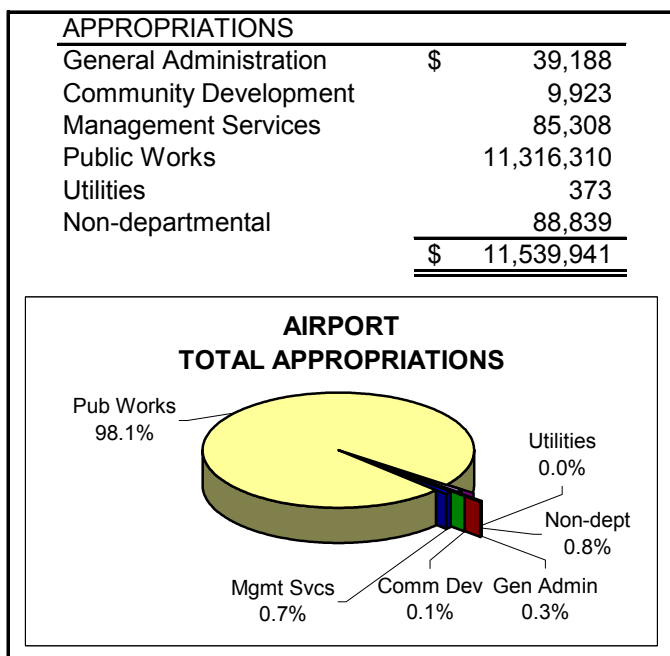
Currently, the existing landfill rate structure provides cost recovery for ongoing operations as well as provisions for funding replacement equipment; closure and regulatory compliance costs related to mitigation of environmental contamination and/or degradation; as well as for future site requirements. Based on current estimates for closure and post-closure landfill costs, the City is setting aside legally restricted funds to insure sufficient funds will be available to meet these requirements.



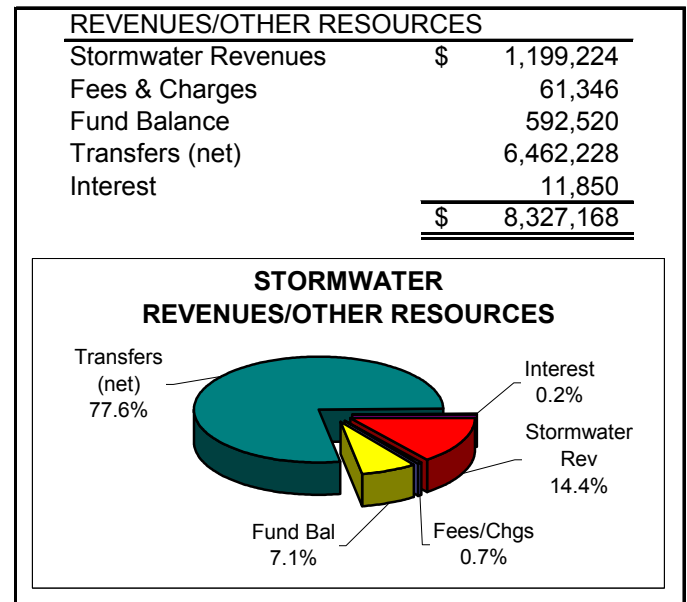
**AIRPORT FUND:** Pulliam Airport is located four miles south of downtown Flagstaff and is staffed seventeen hours per day, seven days each week and provides airline service to Phoenix and Los Angeles. Total appropriations are \$11.5 million: \$1.6 million for operations, \$655,666 for debt and \$9.3 million in capital outlay. Primarily FAA and ADOT grants will fund the capital improvements.



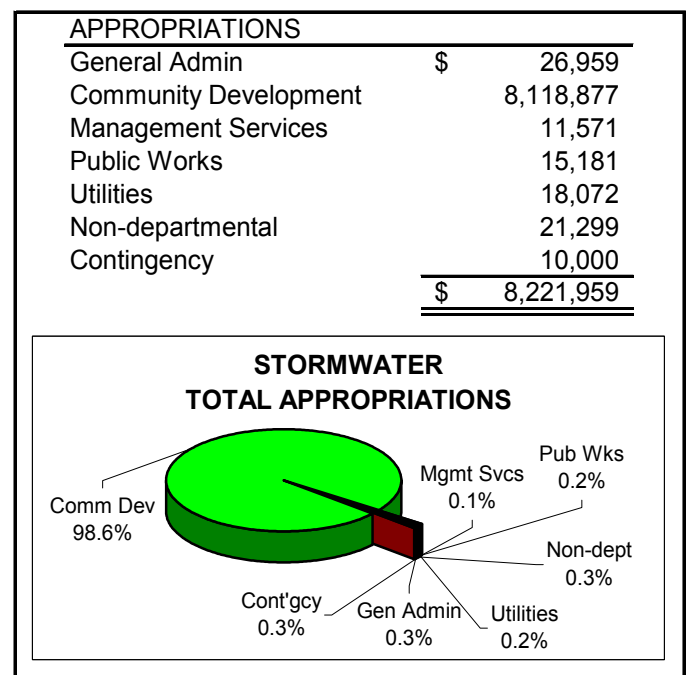
The general fund will continue to subsidize operations at \$292,000 this year with an additional \$398,000 for capital improvements including matching funds for grants. This year, of the \$9.3 million in capital improvements, FAA and ADOT are funding \$8.9 million. The secondary property tax fund will transfer \$337,007 to cover debt service not paid with passenger facility charges.



**STORMWATER FUND:** The Stormwater fund was initiated as a response to enhanced NPDES stormwater requirements affecting all communities with populations greater than 50,000 as of March 2003. The City of Flagstaff worked with consultants to design a program that met current minimum NPDES standards. Stormwater fees to both residential and commercial customers are stepped based on every 1,500 square feet of impervious area. A rate increase has been approved for FY 2009.



Total revenues/other resources include transfer of \$6.8 million from the general fund for the Rio de Flag project. Total appropriations of \$8.2 million include the operational components of NPDES implementation, general drainage maintenance, and the Rio de Flag including related parking.



## **FIVE-YEAR PROJECTIONS BY FUND**

The City updates five-year plans annually during the budget process. These plans are an important tool to continue our emphasis on strategic planning and to identify the capacity of the City to fund projected expenditures. Revenue and resource estimates are based on the latest available economic and demographic trend information. All significant revenue and expenditure issues have been incorporated into the projections including local and state revenue trends, compensation, and the operational impact of capital projects. The projections are not intended to be an exact prediction of what each department will spend in the next five years.

The policy of the City is to match ongoing expenditures with ongoing revenues. This policy is to assure that the funds have adequate revenues to support the continued operations. Several funds will use one-time revenues and fund balance to pay for capital equipment, capital improvements, and other types of one-time expenditures. Generally when you see major fluctuation in fund balance from beginning to ending, the change is related to carryover and/or budgeting of such items. Funds such as the General, Highway User, Transportation, Beautification, BBB-Recreation, Real Estate Proceeds, Housing and Community Services, Capital Projects Bond Funds rely heavily on these one-time expenditure commitments.

The preparation of the five-year plan is a cooperative effort between department heads, division heads, and budget staffs to assure projections are based in current program needs and revenue estimates are achievable.

The five-year projections are located in the Financial Summary section, Schedule 11. The following narratives present the highlight of the forecasts by funds:

### **GENERAL**

The primary purpose of the General Fund five-year projections is to assure that ongoing revenues are meeting or exceeding ongoing expenditures. Ongoing expenditures include debt service, fleet replacements, information system replacement and upgrades, an allocation for capital, and projected changes in personnel. As financial conditions change in the City, the five-year projections are continually updated to balance the ongoing sources and uses of funds.

The General Fund balance decreases by 65% as the city is currently funding several projects with Fund Balance and non-recurring revenues. Such projects include redevelopment, the Flagstaff Mall expansion, and Rio de Flag flood control.

### **LIBRARY**

The five-year plan for Library shows the ability to fund ongoing operations costs with funding from the City,

through revenue transfers, and the County, through Library District Taxes. The Library fund balance decreases by 87% due to planned expenditures at both the branch and affiliate Library.

### **HIGHWAY USER**

This fund is devoted to the maintenance, improvements, and construction of street related items. The fund first matches ongoing revenues with ongoing maintenance and then plans out the capital equipment and improvements. Several capital improvements include portions that are funded through revenue transfers from other funds. The five-year plan shows the ability to balance ongoing and one-time expenditures while maintaining an adequate fund balance. The HURF fund balance decreases by 15% due to planned expenditures for the completion of various capital projects.

### **TRANSPORTATION**

The Transportation Fund is used to track revenues and expenditures related to a dedicated sales tax approved by voters. The five-year plan shows the completion of a 4th Street Overpass in FY 2007 and the ongoing funding of the transit system which is operated by the County. Other projects are funded through revenue transfers to the fund where the projects are budgeted. The Transportation fund balance increases by 227% due to the 2008 voter approved rate increase for transit services that will generate an additional \$2.2 million in revenue.

### **BEAUTIFICATION**

The primary sources for this fund include; BBB Tax, grants and revenue transfers. This fund primarily accounts for capital projects related to FUTS and Streetscapes. It is an ongoing effort to balance the amount of projects within the availability of revenues. This five-year plan shows how it is accomplished. The Beautification fund balance decreases by 94% due to planned expenditures for the completion of various capital projects.

### **ECONOMIC DEVELOPMENT**

This fund is balanced with ongoing revenues from BBB taxes and General Fund transfers. Ongoing expenditures support a number of efforts focused on business attraction, retention, work force development, and the business incubator. The Economic Development fund balance decreases by 61% due to planned one-time expenditures focused on economic development efforts.

### **TOURISM**

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to tourism promotion and visitor center services. Based on revenue growth, this fund can maintain existing operations levels. The Tourism fund balance decreases by 49% due to planned one-time expenditures related to the roll-out of a new airline service to the Flagstaff area.

## **ARTS AND SCIENCE**

This fund is balanced with ongoing revenues from BBB taxes and ongoing expenditures related to contributions to agencies for projects related to awareness of arts and science in our community. Based on revenue growth, contributions will be maintained or slightly increased over the next five years. The Arts and Science fund balance decreases by 87% as this fund has been accumulating reserve for public art and it is anticipated that selections will be made in FY2009.

## **RECREATION-BBB**

This fund is used for the improvements to city and school recreational parks and fields. In addition, maintenance cost related to the improved parks and fields, maintenance of FUTS trails, debt service of bonds issued for improvements, and a transfer for construction of new FUTS trails are funded with ongoing revenues. The Recreation – BBB fund balance increases by 114% as the fund has recovered from a planned negative balance. As the fund accumulates reserves, new capital projects will be scoped and constructed.

## **REAL ESTATE PROCEEDS**

This fund is used for one-time revenues and expenditures related to sale and acquisition of property. As the City sells additional properties, those funds will be restricted for a similar purchase of land as intended with the original land acquisition. The Real Estate Proceed fund balance decreases by 97% due to planned expenditures on facilities.

## **HOUSING AND COMMUNITY SERVICES**

This fund is primarily used to track revenues and expenditures related to Community Development Block Grants and other housing grants. The block grants are an entitlement to the City and are expected to stay level over the next 5 years. The City currently expects to receive State housing grants every other year. The City General Fund makes contributions annually to fund a revolving loan program, land acquisition, and affordable housing assistance. The Housing and Community Services fund balance decreases by 93% due to the scheduled completion of various housing work programs.

## **METROPOLITAN PLANNING ORGANIZATION**

This fund is used for transportation planning grants. It is currently estimated that grant revenues will remain consistent throughout the next five years. Some work is performed for internal customers and allocated through charge-outs.

## **GENERAL OBLIGATION BOND**

This fund is used to track the debt service payments on General Obligation Bonds. This five-year plan shows the City is meeting the requirements for future debt service payments.

## **SECONDARY PROPERTY TAX**

This fund is used for tracking of secondary property tax revenue and the subsequent transfer to other funds to make debt service requirements. The five-year projection uses the current assessed valuation figures from the county to estimate property taxes that will be available for debt service expenditures. The projection assumes additional voter authorization to be issued in the future and maintaining the existing tax rate. This allows the City to look at the long-term property tax rates to smooth the highs and lows and maintains a more level tax rate from year to year. The Secondary Property tax fund balance increases by 32% due to the overall increase in assessed values for the city.

## **SPECIAL ASSESSMENT BOND**

This fund is set up for repayment of bonds issued for special assessment district. The City currently has two districts. The Bow and Arrow Estates special assessment will be paid in 2010. The newly formed Aspen Sawmill district will realize its first receipts and payments in FY 2010. The Special Assessment Bond fund balance decreases by 31% due to the planned retirement of debt.

## **PERPETUAL CARE**

This fund is currently used for the tracking of contributions related to long-term maintenance at the City owned cemetery. The fund balance increases by 19% as expenditures will not be budgeted until there is adequate fund balance to pay for ongoing expenditures.

## **CAPITAL PROJECTS BOND**

This fund is used to track the revenues and expenditures of the voter approved bond eligible projects. In May of 2004, the voters of Flagstaff approved ten projects. The exception is for Water and Wastewater projects that will be presented in the Utilities five-year plan. Projects/bond sales are scheduled to coincide with the retirement of other debt so the overall secondary property tax rate does not increase. This fund currently has three components:

1. The Aspen at Sawmill project fund balance decreases by 80% due to planned capital expenditures.
2. The Municipal Facilities Corp fund balance increases by 189% due to the timing of receiving bond proceeds.
3. The GO Bond Funded Projects fund balance decreases by 67% for planned capital expenditures.

## **WATER AND WASTEWATER**

As a City enterprise fund, this fund is managed on a self-sustaining basis. The five-year projections show that ongoing expenditures, capital improvements, and debt service requirements are being met with user fees, fund balance, and interest earnings. In addition to the five-year projections, the City uses a rate model to balance future operations and capital requirements with

anticipated revenues over a ten-year period. The Water and Wastewater fund balance decreases by 63% due to planned capital expenditures.

## AIRPORT

This fund is responsible for the operations at Flagstaff Pulliam Airport. The majority of future revenues are grants related to continued expansion and capital improvements at the airport. Currently the airport is not self-sustaining for ongoing expenditures. It is the goal of the Airport Fund to become self-sustaining through additional Airpark developments and the expansion of the runway to allow regional jet service. A second airline began service June 2008. Until then, the General Fund will make contributions to cover the differences. The capital improvement plan is based on annual updates to ADOT and FAA. The City General Fund also makes a transfer to the Airport Fund to cover the match portion of capital grants awarded. The Airport fund balance decreases by 62% due to normal fluctuations of the transfer from the General Fund.

## ENVIRONMENTAL SERVICES

This enterprise fund is self-sustaining through user fees. The five-year projection anticipates a rate escalator of five percent per year over the next five years. This coincides with on-going operations; capital needs, and revised service levels for all operations. Included in the five-year projection is the anticipated funding to cover the landfill closure and post-closure costs at the end of the useful life of the landfill.

## STORMWATER

This fund is an enterprise fund to oversee City issues related to drainage and the associated federal requirements. Ongoing operating expenditures are paid for with stormwater revenues and user fees. Capital projects are currently funded with transfers from other divisions. A rate increase was approved for FY 2007 and to self-fund capital improvements and increase inspection efforts as required by NPDES. Rates will continue to be increased annually from FY 2008 to 2011. The Stormwater fund balance decreases by 82% due to planned capital expenditures.

## FIREMEN'S PENSION

All funds were distributed in FY2008 and the fund was closed.

## REVENUES

Historical Trend Information for Select Revenues

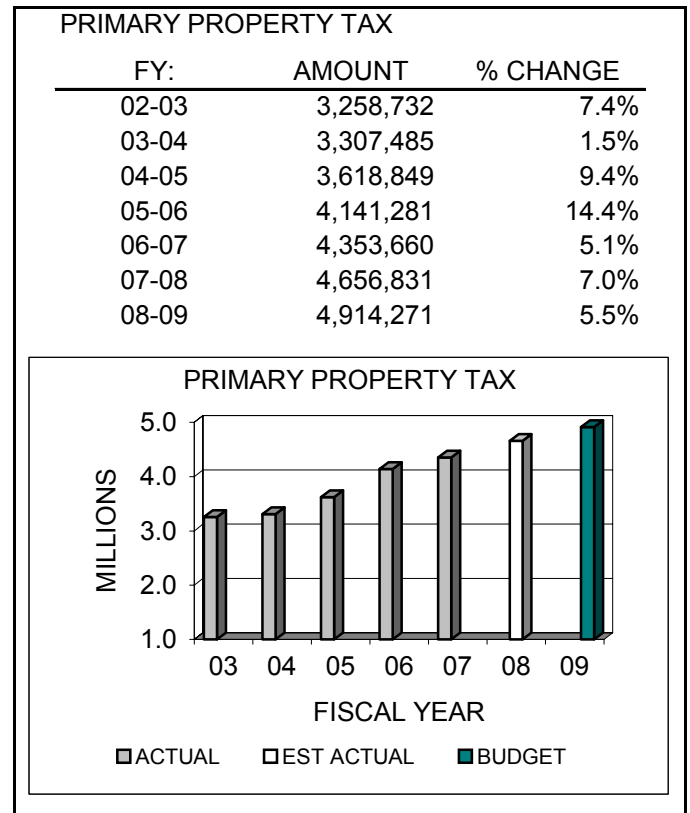
### GENERAL FUND

#### PROPERTY TAX RECEIPTS CURRENT, PRIMARY

Legal Authority: Arizona Revised Statutes Section 42-45 (B) based on the State Constitution Article 9, Section 18. Revised through HB2876, June 2006.

Description: The property tax is levied each year on or before the third Monday in August based on full cash value of the assessed property as determined by the Coconino County Assessors' Office.

Receipts from primary property taxes levied by the City are deposited in the General Fund. No restrictions on usage apply to the primary property tax. State statute limits the annual increase to 2% plus the amount generated by construction. This legal restriction previously had no impact on the City as the City had levied less than 50% of the maximum allowed. For FY 2007, legislation was introduced through an omnibus bill and signed by the governor that changed the base amount to the amount assessed in tax year 2005 this was subsequently approved in the November general election. This change decreased the City's ability to assess property tax dramatically.



Primary property taxes generally change on an annual basis for two reasons: new construction that is added to

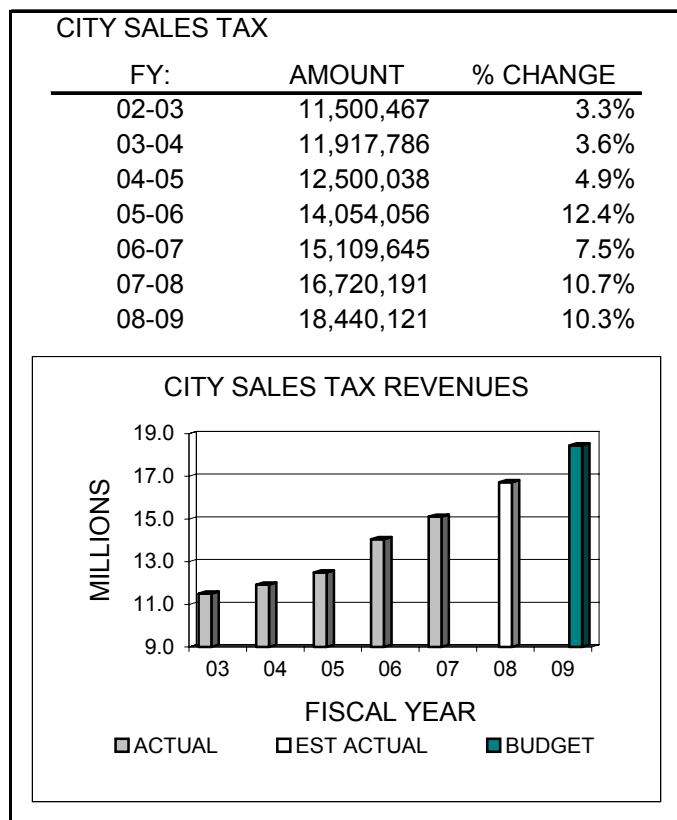
the tax rolls and the reassessment of existing property. New construction added over \$24 million dollars to the assessed valuation for FY 2009 and accounts for 3.5% of the increase.

### CITY SALES TAX (TRANSACTION PRIVILEGE TAX)

Legal Authority: City Code, Title 3, Chapter 5, (Ordinance 1491)

Tax currently sunsets 2014.

Description: The single largest revenue source for the City is obtained from a 1% tax on the sales of goods. The sale of food for home consumption is exempted from the tax. Additional sales taxes levies include a 2% tax on hotels, restaurants and bars (BBB Tax) and a 0.721% transportation tax.



The 1% portion is designated as General Fund revenue to support activities and services provided by the City government. Bed, Board and Booze (BBB) and Transportation taxes are presented separately in this section.

These numbers are sales tax revenues only; audit assessments and penalty and interest revenues are combined with these numbers on schedule 3. The increase in revenues for FY 2008 was driven by increases in construction, tourism, and retail sales. Construction remains strong, primarily in commercial. The revenue projection for FY 2009 anticipates larger

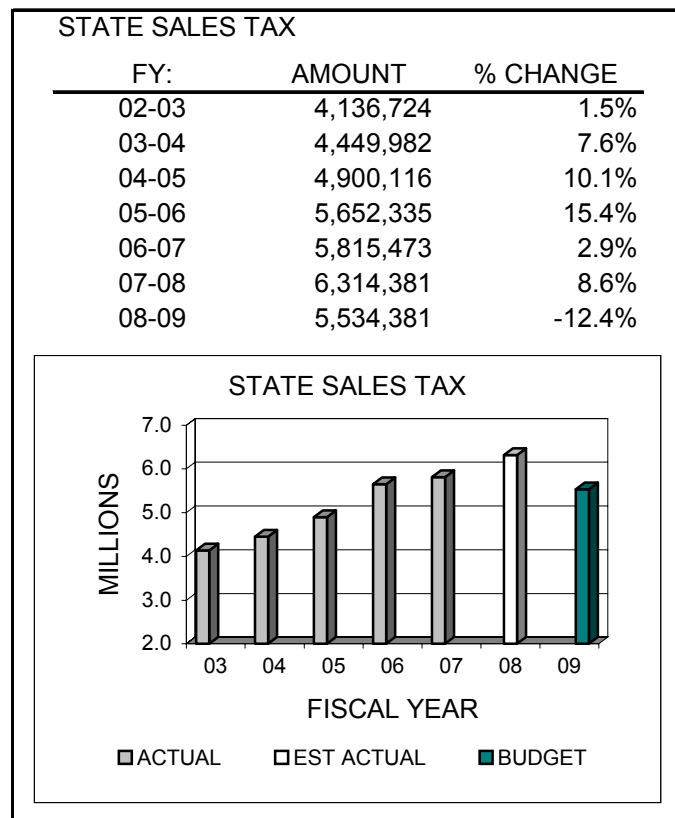
increases in retail from the Flagstaff Mall expansion, the Auto Mall expansion, and the completion of both the Conference Center and Aspen Sawmill.

### STATE SALES TAX

Legal Authority: Arizona Revised Statutes Section 42 - 1341 (D)

Description: A half-cent (.5%) portion of the five-cent (5%) State Sales Tax collected is divided among the State's cities and towns based on population. These revenues can be used for any municipal purpose and, therefore, are deposited in the General Fund to support activities and services provided by the general government.

The sales tax revenue projected for FY 2009 reflects the economic downturn at the state level due to the residential construction and overall housing market slump.



## STATE INCOME TAX (REVENUE SHARING)

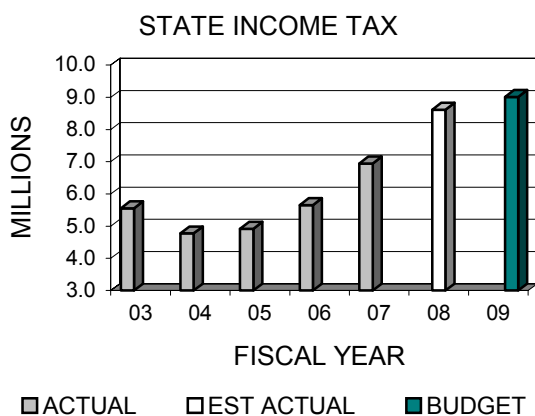
Legal Authority: Arizona Revised Statutes Section 43 - 244 (B)

Description: The City shares in 15.8% of the State income tax collected based on the population of the cities and towns as reported in the 2000 Census and adjusted by the annual DES POPTAC estimates. A two-year lag exists between the year of distribution and collection and the reporting year for which the income tax returns are filed. Therefore, little variance is expected between amounts estimated in the budget and actual receipts. Because revenues can be used for any municipal purpose, funds received are deposited in the General Fund to support the services and activities of the general government.

The large decrease in FY 04 is due to the State receiving less revenue from income tax than previously estimated. All cities have received a proportionate decrease. The League of Arizona Cities and Towns provides the revenue estimates for FY 2009. The increase in FY 2008 was set as a base for FY 2009 to hold cities harmless as the result of a state tax cut. The base available for distribution is less however, which decreases the city share in FY 2010 and following.

### STATE INCOME TAX

FY:	AMOUNT	% CHANGE
02-03	5,557,918	0.6%
03-04	4,777,145	-14.0%
04-05	4,918,476	3.0%
05-06	5,655,642	15.0%
06-07	6,946,680	22.8%
07-08	8,616,976	24.0%
08-09	9,014,800	4.6%



## FRANCHISE TAX

Legal Authority: Flagstaff Charter and City Code Article XII

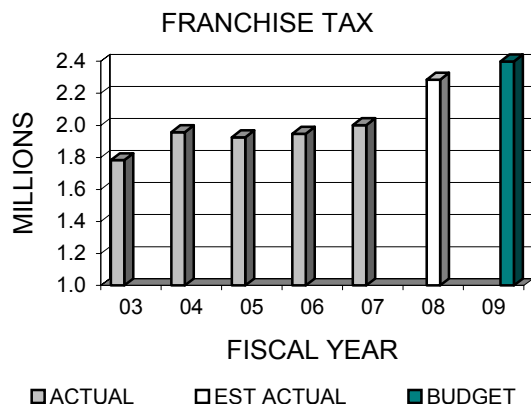
Arizona Public Service: Ordinance 360 (expires 8-21-2011), UniSource Energy Services: Ordinance 1879 (expires 10-3-2020), US West, MCI, US Sprint, Central Corp, and A T & T: Ordinance 585. NPG: Resolution 2006-72 (expires 12-31-2016).

Description: A 2% tax from utility companies--Arizona Public Service and UniSource--is credited to this account. The City also receives a franchise tax from Qwest Telephone Co., A T & T, NPG Cable, MCI, US Sprint, and Central Corp; these entities are currently taxed at 2% except NPG Cable that is taxed at 5%.

The growth rate for franchise tax revenue in FY 2009 is due to normal growth in consumer accounts.

### FRANCHISE

FY:	AMOUNT	% CHANGE
02-03	1,783,098	-0.4%
03-04	1,957,830	9.8%
04-05	1,925,231	-1.7%
05-06	1,947,699	1.2%
06-07	2,001,795	2.8%
07-08	2,285,177	14.2%
08-09	2,399,436	5.0%





## FINES & FORFEITURES

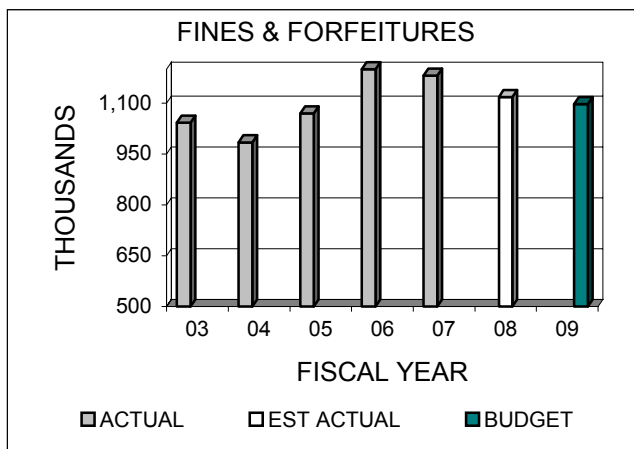
Legal Authority: Arizona Revised Statutes, Rules of Criminal Procedure  
City Code, Title 1, Chapter 15, Section 8

Description: Revenues are derived from a multitude of fines and forfeitures that relate to fines ordered by the court magistrates and administrative charges for Traffic School. Other miscellaneous fees allowed include court reimbursements and court collection fees.

The increase in FY 2006 was due to the inception of the FARE program. Fiscal years 2008 and 2009 reflect normalized collections.

### FINES & FORFEITURES

FY:	AMOUNT	% CHANGE
02-03	1,042,133	11.8%
03-04	984,492	-5.5%
04-05	1,069,562	8.6%
05-06	1,332,101	24.5%
06-07	1,181,278	-11.3%
07-08	1,117,737	-5.4%
08-09	1,097,379	-1.8%



## AUTO IN LIEU TAX

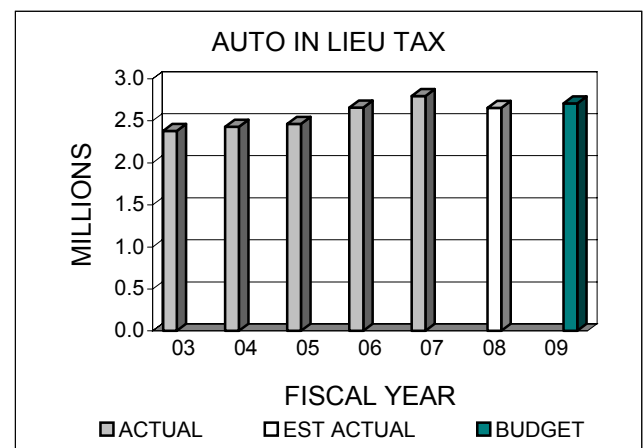
Legal Authority: Arizona Revised Statutes Section 28 - 1591 (c)

Description: Twenty-five (25) percent of the net receipts from vehicle licensing collected by the State is returned to the cities and towns of licensing origin. The distribution is based on population in proportion to total population in incorporated areas. This revenue source can be used for any municipal purpose; therefore, revenues are deposited in the General Fund to support services and activities of the general government.

Revenues had been steadily increasing due to the sales boosts in auto sales due to 0% financing and other offered incentives. Collections are normalizing in 2008 with a slight bump anticipated due to sales at the Auto Mall.

### AUTO IN LIEU TAX

FY:	AMOUNT	% CHANGE
02-03	2,378,467	31.9%
03-04	2,427,367	2.1%
04-05	2,461,425	1.4%
05-06	2,655,653	7.9%
06-07	2,792,404	5.1%
07-08	2,653,020	-5.0%
08-09	2,706,080	2.0%





## BBB FUNDS

### BED, BOARD & BOOZE TAX

Legal Authority: Ordinance 1902, Approved by voters March 1996, extended by vote to March 31, 2013.

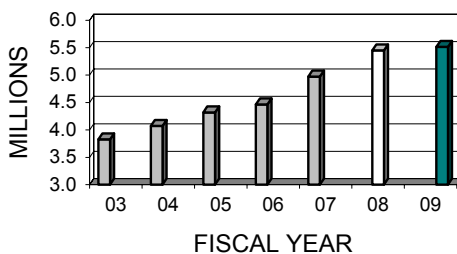
Description: An additional city sales tax of 2% is charged on the services of hotels, restaurants and bars. The City has designated all of these revenues for the purposes of enhancing beautification, tourism, economic development, recreation, and arts & sciences.

The steady growth reflects that the Flagstaff area remains a highly desirable tourism destination that is not as susceptible to economic downturns as realized by other Arizona locales. The BBB Revenue projection for FY 2009 reflects an increase of 1.2% as minimal growth in tourism is expected for Northern Arizona.

#### BBB

FY:	AMOUNT	% CHANGE
02-03	3,826,975	2.1%
03-04	4,072,344	6.4%
04-05	4,317,063	6.0%
05-06	4,463,359	3.4%
06-07	4,970,795	11.4%
07-08	5,450,366	9.6%
08-09	5,514,830	1.2%

#### BED, BOARD & BOOZE TAX



## HIGHWAY USER REVENUE FUND

### HIGHWAY USER TAX

Legal Authority: Arizona Revised Statutes Section 28 - 1598 (B.4), (For method of distribution see ARS 28-1598 (D.3))

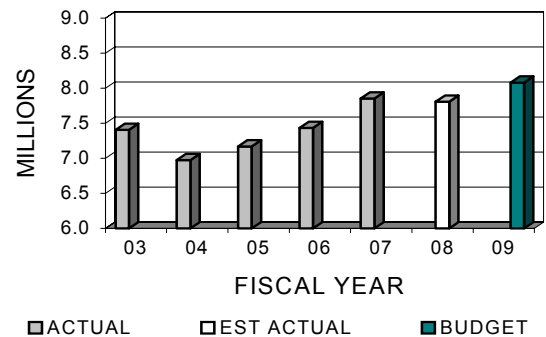
Description: The proceeds from the State-shared motor vehicle fuel tax (currently 16 cents per gallon, of which cities and towns share in 13 cents per gallon) are distributed by the State to cities and towns by a compromise formula. Fifty percent of the distribution is based on point of origin for the sale of gasoline. The remaining fifty percent is based on population in proportion to total population for incorporated towns and cities.

The City expects a 3.5% increase in HURF revenues for FY 2009 based on projections provided by the League of Arizona Cities and Towns.

#### HURF

FY:	AMOUNT	% CHANGE
02-03	7,408,116	-4.7%
03-04	6,975,351	-5.8%
04-05	7,171,383	2.8%
05-06	7,436,000	3.7%
06-07	7,855,427	5.6%
07-08	7,809,870	-0.6%
08-09	8,083,215	3.5%

#### HIGHWAY USER TAX



## LOCAL TRANSPORTATION ASSISTANCE

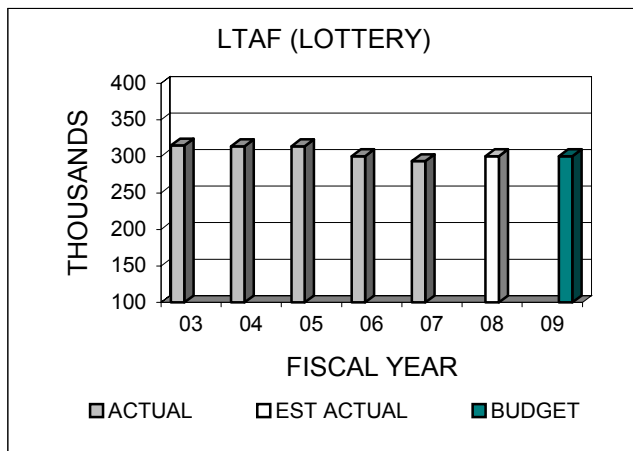
Legal Authority: Arizona Revised Statutes Sections 5 - 522, 40 - 1101, and 40 - 1102

Description: A portion of the lottery monies is distributed to cities and towns. Distribution is based on the population of a city as compared to the total populations of all the cities and towns. These funds must be used for transportation systems including street and highway projects and transit programs.

The City is eligible for monies from the Powerball Lottery game; however, this program has only reached the revenue thresholds that resulted in distribution to the Cities in FY 1998. The State lottery dollars are capped, and will remain static.

### LTAF

FY:	AMOUNT	% CHANGE
02-03	315,026	4.9%
03-04	313,868	-0.4%
04-05	313,843	0.0%
05-06	300,246	-4.3%
06-07	293,502	-2.2%
07-08	300,246	2.3%
08-09	300,246	0.0%



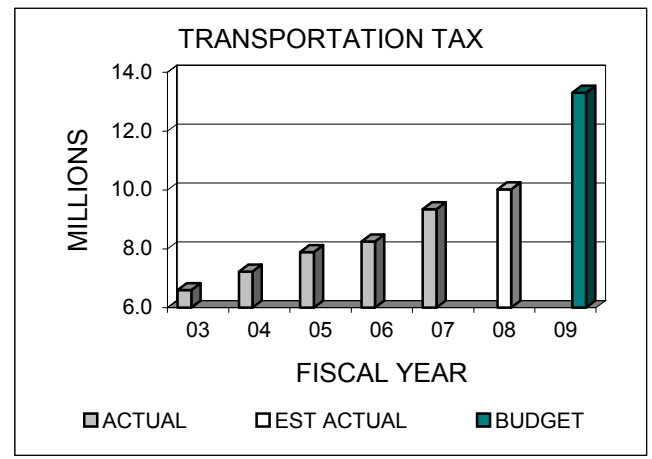
## TRANSPORTATION TAX

Legal Authority: Resolution 2004-48, approved by voters May 2000.

Description: The Transportation tax was approved by voters to address four transportation issues. This tax was approved for a period of twenty years. The tax helps pay for a 4<sup>th</sup> Street overpass, safety improvements, street improvements, and transit services. The transportation tax is assessed on the same goods and services as the City's general sales tax. Prior to FY 2009, the tax rate was .601%. In May of 2008, voters approved a new tax rate of .721%. Anticipated increased revenues are due to the expansion of the Flagstaff Mall and the increase in the tax rate.

### TRANSPORTATION TAX

FY:	AMOUNT	% CHANGE
02-03	6,602,604	6.7%
03-04	7,228,565	9.5%
04-05	7,898,607	9.3%
05-06	8,251,863	4.5%
06-07	9,345,864	13.3%
07-08	10,022,211	7.2%
08-09	13,295,320	32.7%



## ENTERPRISE FUNDS

### WATER SALES

Legal Authority: City Code, Title 7, Chapter 3, Section 11

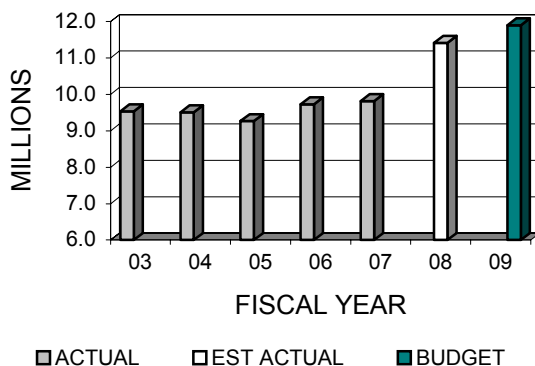
Description: The principal revenue for operating and managing the City's water system is derived from rates and charges for water services. Monthly water bills consist of a base charge for the amount of water consumed with an inverted rate structure for consumption levels above the base amount so as to encourage water conservation practices. The rates for each customer class are reviewed annually to assure adequate user charges; proposed rate changes effectuate in January.

The decrease in FY 2002 through FY 2005 is because of water restrictions due to a drought year. A rate increase has been approved for FY 2009 which was based on utilities rate model and debt issues to cover voter approved projects.

#### WATER

FY:	AMOUNT	% CHANGE
02-03	9,537,409	-3.5%
03-04	9,511,860	-0.3%
04-05	9,268,194	-2.6%
05-06	9,727,199	5.0%
06-07	9,816,624	0.9%
07-08	11,415,000	16.3%
08-09	11,899,453	4.2%

#### WATER SALES



## WASTEWATER SERVICE CHARGES

Legal Authority: City Code, Title 7, Chapter 2, Section 39

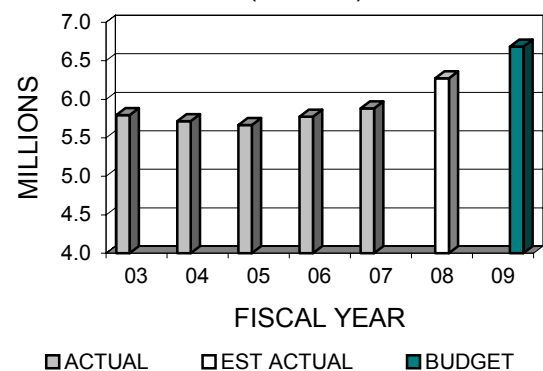
Description: The principal revenue for operating and managing the City's wastewater system is derived from revenues generated from wastewater (sewer) rates and user charges. Both residential and commercial customers are charged on the basis of water consumption. Residential customer charges are based on average water consumption for the proceeding winter months (Dec-Mar). All other customers are billed based on actual monthly water usage unless they can measurably separate which quantity of water does not reach the wastewater system.

The revenue projections include a 2.0% factor due to population and consumption changes. A rate increase has been approved for FY 2009. This is a result of issuing voter approved debt for the Wildcat Plant upgrade.

#### WASTEWATER

FY:	AMOUNT	% CHANGE
02-03	5,796,821	0.5%
03-04	5,716,062	-1.4%
04-05	5,664,796	-0.9%
05-06	5,773,014	1.9%
06-07	5,884,159	1.9%
07-08	6,271,881	6.6%
08-09	6,685,179	6.6%

#### WASTEWATER (SEWER) CHARGES



## ENVIRONMENTAL SERVICES

Legal Authority: City Code, Title 7, Chapter 4, Sections 8-9

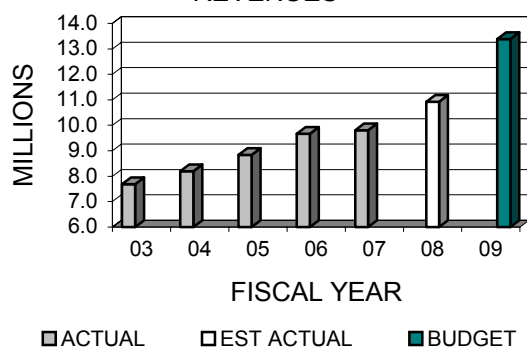
Description: Environmental Services disposal service revenue is comprised of solid waste collection charges, hoist and haul fees, landfill dumping charges, inert materials landfill fees, environmental service fees, and residential and commercial recycling. Service charges for residential and commercial customers are based on size of container and frequency of pickup. Hoist and haul is based on a cost per pull plus tonnage. Receipts from fees charged for dumping at the City Landfill are based on tonnage. The environmental service fee is a fixed monthly charge.

The increase in revenues for FY 2009 represents expected increases related to residential and commercial collection which reflect a rate increase effective mid-year FY2008 and is planned to escalate by five percent per year over the next five years.

### ENVIRONMENTAL SERVICES

FY:	AMOUNT	% CHANGE
02-03	7,680,008	29.6%
03-04	8,200,102	6.8%
04-05	8,833,909	7.7%
05-06	9,666,478	9.4%
06-07	9,811,052	1.5%
07-08	10,921,128	11.3%
08-09	13,386,951	22.6%

### ENVIRONMENTAL SERVICES REVENUES



## AIRPORT

Legal Authority: City Code, Title 8, Chapter 6, Sections 1-8

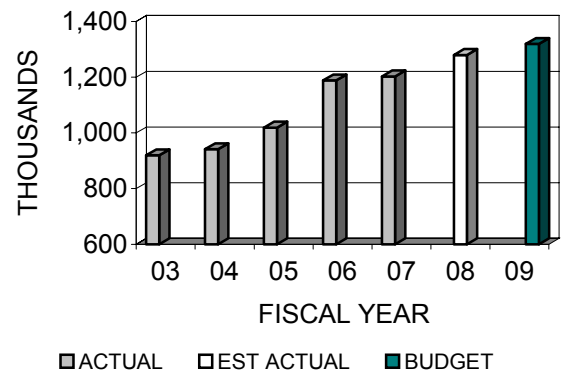
Description: Airport revenue is derived from the rental of airplane hangars, tiedowns, tiedowns with electricity, and shades rented to various individuals and vendors. Landing fees are charged at a rate of \$1.05/1,000 pounds based on gross certificate landing weight of aircraft. Rental revenue from terminal rent consists of space, concession and advertising fees. Revenues are collected from the sale and storage of aviation fuel. A \$3 PFC charge is collected from the ticket sales of passengers embarking from Pulliam.

The increases from FY 2003 through FY 2009 are mainly due to a new terminal lease, growth in ground leases, auto rental revenues, and revenue from new hangars that were constructed in FY 2005.

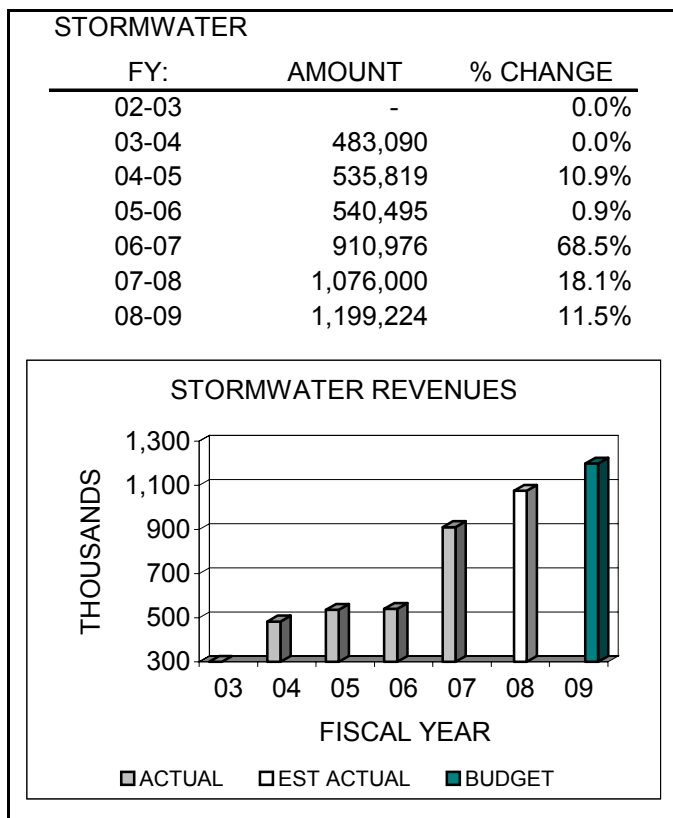
### AIRPORT

FY:	AMOUNT	% CHANGE
02-03	919,915	10.2%
03-04	941,623	2.4%
04-05	1,019,147	8.2%
05-06	1,188,512	16.6%
06-07	1,202,763	1.2%
07-08	1,279,644	6.4%
08-09	1,319,326	3.1%

### AIRPORT REVENUES



## STORMWATER



Legal Authority: City Code, Title 12, Chapter 2, Section 3

Description: Stormwater revenue is determined by the number of Equivalent Runoff Units (ERU) s on a property. An ERU is defined as 1500 square feet of impervious matter. Charges are the same for both commercial and residential customers. The first year of implementation was FY 2004 with a rate of \$.53 per ERU. The FY 2007 estimated revenue increase of 84.9% is due to the new stormwater rate of \$.92 per ERU covers additional staff, additional costs related to the mandated NPDES permit activities, and a proposed Drainage Spot Improvement Program. The FY 2009 approved rate is \$1.12 and will be increased by \$.10 per year until FY 2011 when rate will be set at \$1.30.

## CAPITAL BUDGET

### RELATIONSHIP BETWEEN OPERATING AND CAPITAL BUDGET

The Five-Year Capital Improvement Plan (multi-year, long-range study of construction and/or acquisition of high cost items with an extended useful life) is prepared separately from the Annual Budget and Financial Plan (focus on municipal service delivery programs which generally are of an on-going nature); however, the two processes are interrelated.

The operations and maintenance of major capital facilities and infrastructure can significantly impact the operating budget and, must be considered prior to approval and commencement of acquisition of a particular capital asset. In the capital improvement plan for the City, various components have greater impact on the operating budget than other elements and, may even override operating budget constraints, e.g., mandatory environmental regulatory compliance.

The Water and Wastewater Enterprise Fund's revenue structure is sufficient to meet existing and future impacts of capital, operating requirements including environmental sanctions and debt. Proposed, as well as existing, debt service is included because the changes in debt service requirements must be built into the rate models in determining what, if any, rate increases are required each year. The rate model was updated in FY 2007 which resulted in an increase in user fees. This fee also includes a new water resource impact fee.

The Highway User Revenue Fund designates a portion of State distributions to the pavement maintenance program. The program is important in order to keep roadways in good condition and not allow significant deterioration. An additional component of the maintenance program is funding for ADA compliance for curb cuts, curb returns, and deteriorating sidewalks. The major impact on street maintenance is the addition of roads from private development. The Streets division has maintained level staffing through the investment in new, more efficient equipment.

BBB projects will have a significant impact on operating budget requirements. Streetscape and FUTS trail maintenance will require an ongoing level of effort to maintain landscaping. Greater consideration is being given to design and maintenance requirements for future streetscape projects to keep maintenance costs as low as possible. The completion of several parks projects constructed in conjunction with the Parks and Recreation bond program require a major increase in the Parks maintenance budget. City Council has determined that any increased maintenance costs associated with the bond projects will be paid for from BBB funds. Staff has balanced construction maintenance responsibilities and funding sources in the Parks and Recreation Bond program.

### CAPITAL IMPROVEMENT PLAN

#### *What is a Capital Improvement Plan?*

A Capital Improvement Plan is a multi year, long-range study of the construction and/or the acquisition of high cost assets that have an extended useful life usually greater than five years. A long-range plan is needed because of the lead times required to adequately finance, design and/or plan, budget, and implement construction or acquisition of the capital project needs of a community.

Planning in one or two-year increments has proven to be inadequate because of the complexity of projects and the public input process, as well as the design time needed for engineering plans, specifications, and right-of-way acquisition.

After Council has identified priorities and input has been received from all City departments, the development of the actual Capital Improvement Plan is completed. This requires coordination between the budget function and engineering because of the impact of constructed capital projects on the operating budget. For example, bond funds might be used to construct a branch library. However, once construction is completed, the library must be staffed, utility bills must be paid, and the facility must be cleaned and maintained. Therefore, an effective capital improvement plan should always be viewed in context of its impact on the operating budget. You will find anticipated future operations and maintenance impacts as projects are completed in the Capital Improvement Project section of this budget book.

#### **What does a CIP provide?**

- **Cash management capabilities.** The dollars expended on Capital Improvement Plans in jurisdictions experiencing substantial growth or revitalization will often comprise 40% or more of the total budget. By reviewing the sources and uses of funds on a project basis and within the context of the entire CIP, as well as the related cash flows, a jurisdiction can maximize its investment earnings.
- **Debt management.** A CIP allows a jurisdiction to plan the financing requirements and the debt repayment schedule to allow for current and future needs relative to debt service capacity.
- **Expenditure controls.** Funds are expended as they were intended to be spent. The appropriations figure becomes the project management budgets. It is typical for most jurisdictions in their process to budget a 15% to 20% overhead factor to cover engineering and design costs as well as to provide for contingencies.
- **Budgetary controls.** Operating cash flow projections on a project basis serves as a check and balance on a project's progress both in terms of the time schedule and expenditures to date compared with percentage completion.
- **Minimize disruption to citizens.** By looking at the overall impact of the proposed CIP in any given year, the disruption of services or inconvenience imposed by construction activity in a locale can be kept to a minimum. For example, citizen complaints can be minimized by not scheduling the chip sealing of a major arterial street concurrently with ongoing construction on immediately adjacent streets. Additionally, a comprehensive review of multiple projects to ensure adequate coordination can minimize multiple disruptions in a given area.

#### **FY 2009 CAPITAL IMPROVEMENT PLAN**

The City budget for FY 2009 includes capital improvement projects totaling \$91.4 million. This amount includes \$31.9 million in carryover items that have been budgeted. Project funding is comprised of the following: \$10.3 million in grants primarily for airport improvements, business incubator and beautification projects. \$38.0 million in general obligation (G.O.) bonds and capital leases for the construction of Fire Stations, Aquatic/Multi-Gen Center, Wastewater Treatment Plant upgrade and other projects that were approved by the voters in the 2004 General Election. \$43.1 million in operating funds that include street maintenance and improvements, flood control, land acquisition, FUTS and Streetscapes. In May 2004 General Election; the citizens of Flagstaff authorized the City to proceed with ten new projects totaling \$155.2 million. These projects will be phased in over a ten-year period with debt being issued in conjunction with the timing of each project. Each proposed project will be discussed below in its appropriate fund. Project listings are located in the Capital Improvement section of this book.

A separate Capital Budget and Capital Improvement Plan (Five-Year) will be prepared from the Annual Budget biannually. Detail project descriptions including location, justification, planning document references, operating impact, and funding and expenditure data are provided for all funded projects.

**General Government** – twelve projects are scheduled for FY 2009 for a total of \$28.6 million. Projects included in this category are several of the projects authorized by voters in the May 2004 election. These include, Fire Fighting Facilities, an aquatic/multi-generational recreation center; and open space acquisition. Also included in this category is redevelopment land acquisition, a business incubator and The Aspen Place at Sawmill Development.

**Streets/Transportation** – The City currently has 219 miles of paved streets, as well as an additional 10 miles of alleys and 14 miles of unpaved streets. Three major programs are funded in the CIP for the City's streets and related infrastructure. These include an annual maintenance program of chip seal and overlay to extend the useful life of the existing street system; a streets/arterial improvement program to bring streets into current standards or widen to meet existing and anticipated traffic flow patterns; and capital projects including the Sunnyside Street Improvements. There are a total of 24 Streets Transportation projects scheduled at a budgeted cost of \$17 million. HURF revenues fund \$6.8 million of these projects with Transportation Tax funding \$9.9 million.

**BBB Funds** – Projects include Beautification, Tourism and Recreation funding. These projects include Multi-Use Path along Highway 180 and continuing our connectivity of FUTS Trails. This year Federal and State grants will provide funding of \$1.6 million. 28 projects are scheduled at a budgeted cost of \$7.4 million for FY 2009.

**Utilities Fund** – Major projects for Water production and distribution include \$3.8 million for future water rights acquisition and \$4.4 million for water wells. Major projects for Wastewater plants and collection include \$7.2 million for Wildcat plant upgrade/reclaim extensions. 19 water projects and 11 wastewater projects are scheduled at a combined budget of \$22.3 million for FY 2009.

**Airport Fund** – Five projects are scheduled at a budgeted cost of \$8.7 million for FY 2009. The projects include land acquisition and terminal security enhancements.

**Environmental Services Fund** - This year's CIP includes 5 projects for a total cost of \$301,800.

**Stormwater Fund** – The Stormwater fund completed its third year of operations as a new utility fund for the City of Flagstaff. 3 projects are budgeted in this fund with a cost of \$7.1 million in FY 2009. These projects include; drainage spot improvement and the Rio De Flag Drainage Project.

## CAPITAL PLAN IMPLICATIONS

For a community to continue to grow and prosper, capital improvement needs must be balanced with the burden placed on its citizens to fund them. Therefore, the capital improvement program is evaluated in terms of its impact on a variety of factors such as property taxes, utility rates, and entering into other long-term commitments, i.e., affordability factors.

**Property Tax:** Servicing general obligation debt over the previous five years is shown in the community profile section. The table shows that debt as a percentage of assessed valuation has not fluctuated significantly and per capita debt has actually declined. In May 2004, voters authorized sale of bonds to implement 10 new projects totaling \$155.2M. These projects will be phased in over the next 10 years.

**Utility Rate Structure:** The Utility Rate Analysis was added in FY 2007. This rate model provides for major capital improvements, additional bond funding, and increased operating costs. A rate increase occurred in FY 2007 as a result of the updated Utility Rate Analysis. This increased fee also includes a new water resource impact fee. In May 2004 the voters authorized the sale of bonds to support 3 new Utility projects. These projects are reclaimed water system and related wastewater improvements; water wells; and water rights acquisition.

**BBB Sales Taxes:** The voters approved a 2% BBB tax in 1988 with a ten-year sunset provision and renewed the tax an additional fifteen years in March 1996. Capital projects currently underway include streetscape along corridors, and the FUTS (Flagstaff Urban Trail System) connectivity and various recreation projects.

**Transportation Taxes:** On May 16, 2000, the voters also approved a 0.51% transportation tax for twenty years that supports four major transportation issues. The four major areas undertaken are the 4th Street Overpass; Safety to School/Pedestrian/Bike; traffic Flow and Safety Improvements; and Transit Service Enhancements. In May 2008, voters approved an increase of .12 % in the transportation tax; effective July 1, 2008 the new transportation tax rate is .721%.

## **DEBT**

### **DEBT CAPACITY**

The City's legal debt margin shown below, demonstrates adequate capacity to complete the capital projects proposed with the May 2004 bond election. Projects will be initiated over time through issuing new debt within capacity as old debt retires.

### **CURRENT DEBT POSITION**

The City's underlying bond rating for general obligation bonds is presently "A+" by Standard & Poor's Corporation and "Aa3" by Moody's Investor Services representing an upgrade from A1. In assigning a rating to bond issuance, the rating agencies analyze several factors to determine an entity's ability to repay its debt. Some of these factors are described in the following text.

<b>General Obligation Debt</b>	
July 1, 2008	
20% Limitation	
(Water, Sewer, Lighting, Open Spaces, Recreation, and Fire Facilities Purpose Bonds)	
Assessed Valuation	\$ 878,781,823
Allowable 20% Debt	\$ 175,756,365
20% Debt Outstanding	(39,514,000)
Allowable Debt Margin	\$ 136,242,365
6% Limitation	
(All Other General Obligation Bonds)	
Assessed Valuation	\$ 878,781,823
Allowable 6% Debt	\$ 52,726,909
6% Debt Outstanding	(351,000)
Allowable Debt Margin	\$ 52,375,909

**Economic factors** reviewed include measures of growth such as: population and housing demographics; employment base; unemployment rate; competitiveness of services provided by the governmental entity with surrounding jurisdictions; and vulnerability to revenue streams dependent on economy, e.g., sales taxes and delinquency rates on property tax collections. The City is well positioned because of its location and the diversity of its economic base.

**Financial performance factors** focus on the entity's ability to maintain a balanced budget regardless of economic circumstances. Recurring revenue streams without reliance on one-time revenue sources, e.g., asset seizure funds or fund balance should support ongoing expenditures. Maintaining a fund balance of 10% of budgeted appropriations is indicative of sound financial management practices.

**Debt factors** analyzed include indebtedness trends, debt history, current debt burden, and debt repayment schedules. The economic feasibility and need for projects financed with debt are also evaluated, as there is a correlation between perceived benefit received and ability or willingness to repay debt. The history of past voter approved bond authorizations is evaluated as an indicator of taxpayer willingness to repay debt, as well as the amount of overlapping debt imposed on the taxpayer. Development of a long range capital improvement plan is a primary method of planning for future debt needs and is a meaningful way of demonstrating budgetary and fiscal controls.

**Administrative factors** reviewed include the professionalism of the administration relative to budgetary policies and practices, financial reporting and results of independent audit, and effective management practices. Debt limitations, tax rate and levy limitations and unused debt margins are also assessed. Focus on management capabilities includes personnel turnover, labor relations, and legal and political constraints evident in the organizational structure. Finally, assessment procedures are reviewed and property valuations are trended and analyzed.

**Quality of Life factors** include the physical, environmental, and social/cultural amenities of a community, which enhance the desirability as a place to live and thereby add to the valuation of the tax base.



## DEBT SERVICE

At July 1, 2008, the total actual indebtedness is \$141.3 million. FY 2009 annual debt payments are projected to be \$14.9 million. Under current state statutes, the City's General Obligation bonded debt issuances are subject to a legal limitation based on 6% of assessed valuation of real property for general purposes, e.g., buildings, land acquisition, street and highway construction and a limitation of 20% on assessed valuation of real property for public works projects, e.g., water, sewer, sanitation, parks, and open space. At the start of the fiscal year, July 1, 2008, the City's 20% general obligation debt of \$39,514,000 is well below the legal limit of \$175,756,365. The City's 6% general obligation debt of \$351,000 is also well below the legal limit of \$52,726,909. The following table illustrates the total actual indebtedness through the life for all currently outstanding debt.

Schedule of Bonded Indebtedness-Current Debt Only

FY	Principal	Interest	Total
2009	9,332,173	5,583,344	14,915,517
2010	10,374,303	5,509,418	15,883,721
2011	10,737,451	5,094,111	15,831,562
2012	11,222,347	4,654,701	15,877,048
2013	9,301,701	4,184,461	13,486,162
2014	7,740,091	3,791,079	11,531,170
2015	7,311,595	3,460,847	10,772,442
2016	7,384,844	3,152,881	10,537,725
2017	7,099,890	2,817,642	9,917,532
2018	7,262,366	2,511,883	9,774,249
2019	7,582,343	2,192,799	9,775,142
2020	7,905,359	1,859,130	9,764,489
2021	5,986,536	1,518,761	7,505,297
2022	6,226,002	1,281,638	7,507,640
2023	5,290,981	1,037,495	6,328,476
2024	3,689,524	841,583	4,531,107
2025	3,716,185	696,357	4,412,542
2026	3,746,260	554,850	4,301,110
2027	3,354,349	410,724	3,765,073
2028	1,110,000	278,500	1,388,500
2029	1,165,000	221,625	1,386,625
2030	1,220,000	162,000	1,382,000
2031	1,285,000	99,375	1,384,375
2032	1,345,000	33,629	1,378,629
	<u>\$141,389,300</u>	<u>\$ 51,948,833</u>	<u>\$193,338,133</u>

